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THE ECONOMICS OF THE SUPERMARKET DELICATESSEN

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ABSTRACT

Perishables departments have become increasingly pivotal in merchandising programs and overall positioning strategies of the majority of U.S. food retailers. Consumer interest in fresh, healthful foods is up. Moreover, retailers are eager to create distinctive perishables departments to differentiate themselves from ever more intense competition. Yet despite these new pressures, little is known about many of these perishables departments -- the economics, problems, opportunities -- relative to other, better researched parts of the supermarket. This assessment is particularly true of the delicatessen due both to its recent arrival in most supermarkets coupled with the highly perishable and increasingly non-traditional nature and distribution system of many of its products. This study was undertaken as an initial inquiry to document the distribution practices and the economic conditions that characterize the contemporary supermarket deli.

Although the supermarket delicatessen industry has been in existence for decades, it is only in recent years that it has experienced significant growth. Whereas delis were once "free-standing" and restricted primarily to ethnic and metropolitan markets of the East Coast, they have now taken hold in supermarkets across the country.

Information was collected for this study from a comprehensive literature review and from hundreds of face to face interviews with deli executives and consumers around the U.S. The supermarket chains represented in the sample account for approximately 45 percent of all supermarket sales.

The report first establishes the current structural foundation of the supermarket deli upon which the remainder of the research is based. Next, a profile of deli consumers is developed and their perceptions and deli purchasing patterns are compared with those of deli executives. This is followed by an analysis of the key cost and performance measures of the deli. Two major sectors of the report examine the standard product procurement, advertising and promotion practices of the deli.

Finally, the last section of the report summarizes the key findings of the study and suggests needed industry responses to ensure continued growth and improved performance of the supermarket deli.

ACKNOWLEDGEMENTS

This research required substantial industry participation. Much of the data presented in this report, not generally available in the public domain, was initially generated from confidential studies and interviews with private food industry organizations. To all those patient industry members who shared information and fielded endless questions out of a genuine interest in improving the performance of their industry, we offer special thanks.

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SECTION I

INTRODUCTION

Although the supermarket delicatessen industry has been in existence for decades, it is only in recent years that it has experienced significant growth. Whereas delis were once restricted primarily to ethnic and metropolitan markets of the East Coast, they have now taken hold across the country. More than half (57 percent) of the 30,500 U.S. supermarkets now have deli departments. Moreover, deli sales in supermarkets have grown from $3.97 billion in 1982 to $5.83 billion in 1985, a 47 percent increase (Supermarket Business, April 1986). These are substantial gains during a period when real growth in overall food sales has been relatively flat.

The increased activity in supermarket delis can be attributed to several factors. First, strong consumer preference for convenience and ready-to-eat foods continues to be a driving force in food purchasing decisions. Second, triggered by increases in international travel, consumers exhibit greater interest in foreign and ethnic foods now a popular attraction in many delis. Third, expanded delis are a principal grocery industry response to the continuing phenomenon of increased eating away-from-home and the corresponding loss of food expenditures in the retail supermarket. Indeed, many supermarket delis barely resemble the traditional "stand alone" delicatessen: their offerings are likely to range from fast food hamburgers and french fries to full service, in-store, sit-down facilities complete with breakfast, lunch and often exotic dinner menus.

Finally, many supermarket organizations have responded to the increasingly competitive food retail environment by substantial development of the service departments as a major source of differentiating themselves from competing firms. Grocery aisles tend to look, and generally are, highly similar, but service departments like the deli afford retailers greater opportunities to be unique. These conditions, coupled with the high profit margins typical of many deli departments, have led to increased attention to this area of the supermarket.

Yet despite the considerable growth and change, little substantive research has been conducted on the supermarket deli. Retailers and suppliers alike require information on virtually all aspects of this increasingly important department in order to improve management decisions. Information is needed regarding the needs, preferences and perceptions of supermarket deli consumers, the structure of the supermarket deli department, including its standard procurement and operating practices, and finally, deli advertising and promotional procedures.

Report Objectives

The basic purpose of this research is to examine and analyze operations and current developments in the contemporary supermarket delicatessen industry in order to identify potential opportunities for industry improvement, or obstacles currently hindering such improvement. More complete understanding of the many stages of the delicatessen system generated by this research provides both private firm managers and public policy makers the opportunity to develop procedures, strategies and policy initiatives that will better prepare the supermarket deli industry for adjustments to change and thus improve the performance of their industry. Moreover, information on this relatively recent market outlet should prove valuable to many raw product producers and commodity associations in the food system. This is particularly true in the cheese and meat industries where growth in the traditional supermarket locations (eg, the dairy and meat cases) has been stable or declining.

The specific objectives of this report are the following:

(1) to construct a profile of the deli shopper, including characteristics such as demographics, lifestyles, shopping attitudes and preferences with respect to the deli;

(2) to develop information regarding the structural dimensions of the supermarket delicatessen industry, including numbers and size of firms, organization of the manufacturing/wholesaling/retailing deli channels, standard procurement procedures and characteristics of the major deli product categories;

(3) to document typical costs associated with the supermarket deli including gross margins and pricing rules of thumb, overhead allocation, and advertising and promotional practices;

(4) to obtain the evaluation of senior deli executives and managers, at various food system levels, regarding the problems, opportunities and likely future of the supermarket deli department.

Procedures

A comprehensive literature search, both academic and industry-oriented, provided the institutional knowledge base required for this type of research. University reports, key trade and business periodicals, and trade association libraries were consulted and written questionnaires developed (Appendix A) before field interviewing began.

Extensive qualitative and quantitative information was compiled from field data collection involving many levels in the deli system. This occurred in several stages. First, personal interviews were conducted with a purposive, representative, national cross section of individuals associated with the supermarket deli industry. In the majority of instances these individuals represented medium to large retail food chains (a list of participating companies is found in Appendix B). They included senior level headquarters wholesale/retail deli executives, deli buyers, store-level and deli department managers and personnel, as well as a variety of industry trade association officials, and selected deli suppliers. In total, slightly over 100 food chain and deli executives were interviewed representing 31 major retail organizations. The organizations were geographically distributed fairly evenly across the U.S. In 1985 these retail firms accounted for nearly 9,100 stores and approximately $90 billion in sales, or 45 percent of all supermarket sales (Supermarket Business, October 1985).

Personal interviews were also conducted with approximately 500 consumers, also relatively evenly distributed across the many geographic markets and various supermarket companies of the U.S. In general, a "mirror-image" interview technique was employed (Purcell, 1973). This technique permits maximum efficiency in the synthesis and analysis of largely qualitative data. Using this method, questions are posed to two different groups (in this case, deli consumers and deli executives) along similar themes or topics, but in terms of each group's perspective. That is, deli consumers are asked to respond to a series of questions covering a variety of topics related to the supermarket deli. Conversely, deli executives' responses were requested for the same general topics, or themes, as well as their judgments of their consumers' perceptions and behavior. This enabled a comparison of deli executive's perceptions with actual deli consumers' shopping attitudes and purchasing behaviors. Results of these research approaches are presented in the remainder of this report.

SECTION II

STRUCTURE AND ORGANIZATION OF THE SUPERMARKET DELI

Growth of the Deli

The service deli has been documented as one of the fastest growing departments in the supermarket (Progressive Grocer, July 1985). Although service delis appeared in food stores in the New York City metropolitan area as early as the 1930s, these first delis offered only a few basic products such as boiled ham, bologna and a very limited variety of cheeses (Eastern Dairy-Deli Association, August 1985). For much of the rest of the country, delis in their current form were virtually non-existent as recently as the mid 1970s. Thus since the in-store deli is a contemporary phenomenon, historical data on deli operations are very limited. However, industry observers indicate that the largest relative growth of the supermarket deli appears to have occurred during the 1980s. Since 1982, for example, the number of supermarket delis, total deli sales, and deli sales per store have all grown in real terms (Table 2.1). Deli sales have also grown relative to total store sales. This is perhaps the most significant measure, considering the rapid rate at which new food and non-food products are being incorporated into supermarket sales. Moreover, the majority of senior food retailing executives interviewed for this study indicated that, in the future, continued growth, some suggested at even more accelerated rates, should be expected.

TABLE 2.1

Selected Measures of Supermarket Deli Growth, 1982-1985

	1982	1983	1984	1985
Total Deli Sales (million $)	3,970	4,590	5,170	5,830
Stores With delis	14,700	15,900	16,700	17,400
Stores With Delis (percent)	51.8	55.0	55.7	57.0
Average Weekly Deli Sales Per Store ($)	5,200	5,555	5,950	6,450
Deli Sales as a Percent of Store Sales (percent)	4.0	4.0	4.0	4.3

Source: Supermarket Business, April 1986.

Deli growth during the 1980s has been directly tied to the development and expansion of new types of supermarket formats, such as the superstore, the super warehouse store and the combination store. (For a complete description of recent supermarket formats see Willard Bishop Consulting, 1985.) The deli has become an integral part of these recent supermarket "hybrids" for at least three principal reasons.

First, the considerable impact of changing consumer demographics and lifestyles on food purchasing and consumption behavior has been well documented by researchers and food industry analysts (see, for example, Williams et al., 1979; Lambert, 1979; Atlas, 1984; Zeithaml, 1985; Francese, 1986). The deli is often perfectly positioned to meet the demands of many of today's consumers for fresher, higher quality foods. Contemporary values and lifestyles, including more mobile consumers, more women working outside the home, higher disposable incomes, smaller households and generally greater concerns with health, nutrition and quality of food products have all helped propel the growth of delis in supermarkets. Often imported foods and specialty entrees, for example, that constitute a growing component of this changing consumer demand, are now located in the deli.

Second, whereas the average supermarket occupied less than 20,000 sq. ft. in the 1960s, the average supermarket by 1984 had grown to 27,000 sq. ft. (Progressive Grocer, April 1985) and the average <u>new</u> supermarket totaled 40,000 sq. ft. (FMI, 1985). In some instances, consumers have criticized this increase in size since some view these larger stores as impersonal and imposing. Although it may be true that shopping is more "one-stop" in these larger stores, the total shopping time required is often actually extended. However, small boutique-like shops within stores, such as the deli, can provide a combination of unique products and personal service that may offset the barn-like, impersonal atmosphere of many dry grocery departments. For these reasons, food retailers are increasingly positioning their firm's "image" around the service and perishables departments in their new, generally larger, store formats.

Third, the deli, along with most other expanded perishable departments in the supermarkets of the 1980's, is extremely important to the profitability of the overall store. A prevalent merchandising strategy of many of today's new supermarket formats places great emphasis on low prices (the so-called "Everyday Low Price" programs) and low margins in the grocery department. To help offset these lower margins, higher margins in the perishable departments such as the deli are extremely important to the overall profitability of the store. The gross margins for nearly all the perishables departments, with their generally higher service and value-added components, range from 10 to 25 percent higher than the grocery department margin average (Supermarket Business, September 1986).

Geographical Representation

There were 30,500 supermarkets in the U.S. in 1985. Approximately 17,400 of these, 57.0 percent, included a deli department (Table 2.2). On a regional basis, supermarkets are fairly evenly distributed across the U.S., in fact in approximately the same proportion as population (see Appendix C for regicnal designations). Hence, as Table 2.2 indicates, the smallest number of stores is located in the Southwest region where population is relatively lower. Considerably greater variation exists, however, when examining the percent of supermarkets with delis in each region, ranging from over 80 percent to less than 33 percent of all supermarkets. The region with the greatest number of supermarkets, the Northeast, also has the greatest number of supermarkets with delis (81.0 percent). In addition to the larger number of supermarkets in this region, this higher incidence of supermarket delis undoubtedly reflects delis'

TABLE 2.2

The 1985 Supermarket Deli Market: Size and Composition, by Region

Market Segment	Estimated Number Of Supermarkets		Percent With Deli Departments	Estimated Number With Deli Departments		Estimated Deli Sales Volume[a]	
Total	30,500[b]	100%	57.0%	17,400[b]	100%	$5,830[c]	100%
Regions	Number	%		Number	%	$ Sales	%
N. East	6,039	19.8	81.0	4,889	28.1	1,941	33.3
E. Central	4,575	15.0	59.7	2,732	15.7	799	13.7
S. East	5,917	19.4	42.0	2,488	14.3	618	10.6
W. Central	5,460	17.9	51.9	2,836	16.3	915	15.7
S. West	3,691	12.1	32.5	1,201	6.9	233	4.0
W. Pacific	4,819	15.8	67.2	3,236	18.6	1,318	22.6

[a]Millions annually.
[b]Progressive Grocer, April 1986.
[c]Supermarket Business, April 1986.

Source: Cornell Survey estimates.

stronger tradition and earlier introduction into supermarkets in the Northeast. The Southeast and Southwest regions have the lowest percentage of supermarkets with delis (42 percent and 32.5 percent respectively), resulting primarily from their more recent appearance into supermarkets in these regions.

Channel of Distribution

A typical distribution channel for a representative supermarket deli is presented in Figure 2.1. The process of getting deli products from the point of production to the consumer generally involves a number of handlers. However, due to the perishable nature of most deli products, this process must be performed as quickly and efficiently as possible. Deli products are received from U.S. processors and manufacturers, as well as from foreign importers. Probably the most prevalent imported deli products are cheeses, which can account for as much as 50 to 75 percent of all deli cheeses carried. In addition to cheeses, other imported products might include cooking oils, vinegars and chocolates.

Raw products move first through processors or manufacturers and subsequently on through various food distribution channels. However, some deli departments buy local raw materials directly from producers. Food brokers are often used to bring processors together with distributors, wholesales and, ultimately, retailers. As the supermarket deli department expands and requires more products and services, more middle-marketing agents and food preparation facilities are likely to play a role in the overall distribution channel. Key operators in the supermarket deli distribution channel are discussed further in Section V.

Deli Department Organization

Historically, delicatessens were most often operated as adjuncts to other departments, primarily the meat department, or cooperatively with another department, such as the dairy or bakery. Today a majority (52 percent) of supermarket delis are operated as autonomous departments, possessing their own management, procurement and operations staffs (Table 2.3). There are, however, some food chains that continue to operate the deli in conjunction with other departments, for example bakery or dairy, with a single individual (eg, Director of Meat and Deli Operations, Director of Deli and Bakery, or Deli/Dairy Merchandiser) as the head of both departments (Table 2.3). Most deli executives interviewed reported that the reason for the growing independence of the deli was straightforward: as deli-type foods and services increase in importance for both store image and profitability, the deli has warranted a separate place in the retail organization.

FIGURE 2.1

The Supermarket Delicatessen Channel of Distribution

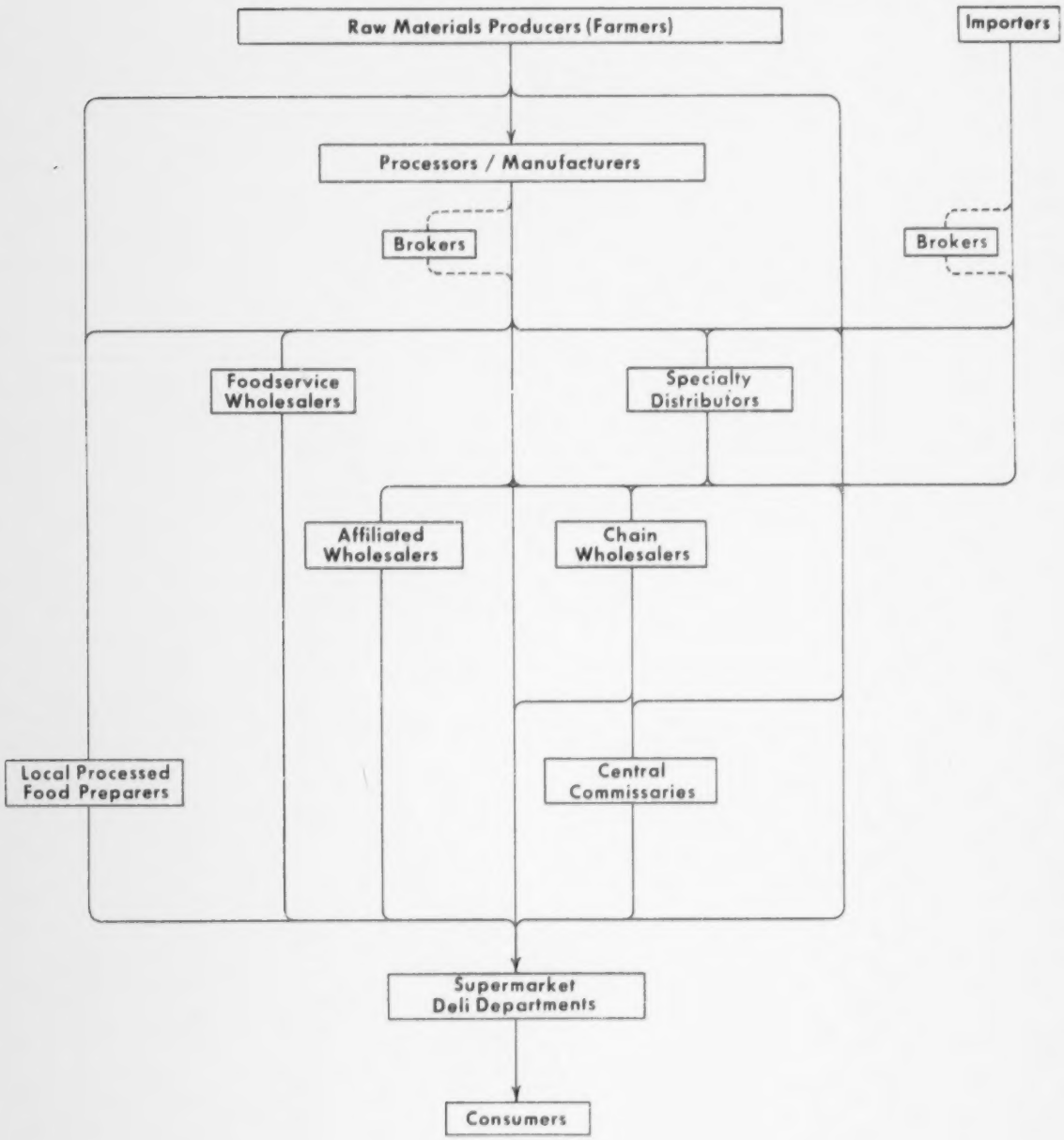


TABLE 2.3

In-Store Deli Department Affiliation

	Percent
Independently Operated	52
Part of Meat Department	27
Part of Bakery Department	16
Other	5
	100

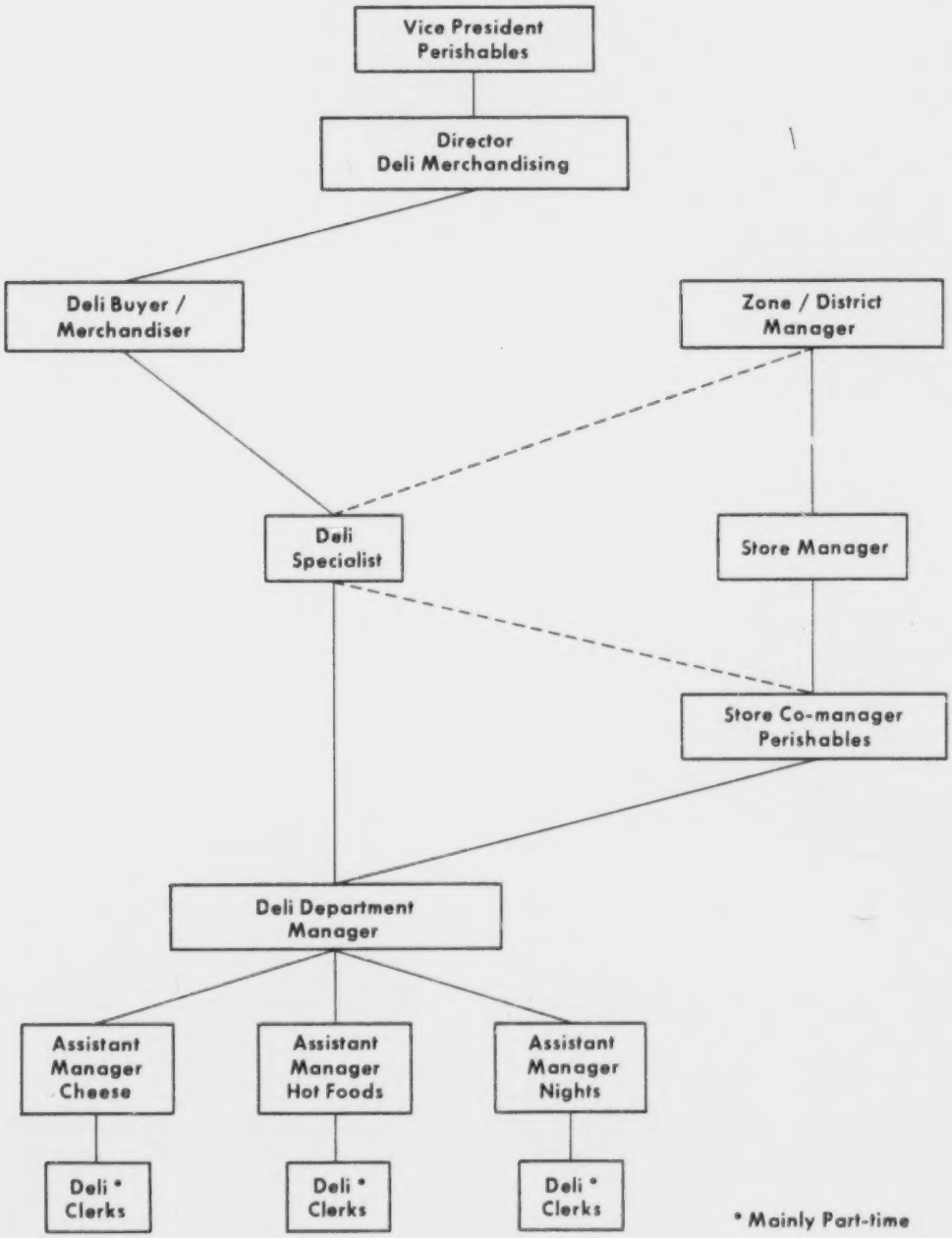
Source: Cornell Survey, 1985.

Figure 2.2 shows a hierarchical plan for the deli department in a typical supermarket chain. This structure varies considerably as a function of the type and size of individual stores, and the business philosophy of the food chain. The Director of Deli Merchandising, with overall responsibility for deli operations, often reports to the Vice President of Perishables or the Vice President of Merchandising. The Director of Deli Merchandising generally supervises one or several merchandisers and buyers, among others. The deli buyer/merchandiser oversees one or a number of deli specialists. Deli buyers, as their name suggests, are responsible for meeting with food suppliers, distributors and brokers to evaluate new products and regularly procure the products to be sold in the company's delis. Additionally, certain specialty products are often purchased directly by store-level deli managers. Each deli specialist (or supervisor, etc.) has responsibility for a number of stores, ranging from five to as many as thirty. In addition to reporting to the deli buyer/merchandiser, deli specialists generally also report indirectly to a zone or district manager (represented by the dashed line in Figure 2.2). Specialists provide a critical coordinating function between headquarters and the stores. They oversee deli department managers at store-level, and offer guidance and suggestions to each store's perishables co-manager. Primary responsibilities of a deli specialist generally include aiding in the implementation of merchandising and other programs, ensuring that company policies are followed, and assisting with problems and training in the stores.

The great majority of deli managers, and deli employees in general, are women. Estimates developed from this study indicate that the number of female deli managers may approach 90 percent. Several factors have been offered to explain this situation. First, the historical part-time status of deli staffs coupled

FIGURE 2.2

Organizational Plan for a Deli Department
in a Typical Supermarket Food Chain



with relatively low wage structures are not as likely to attract male employees who are more apt to be in search of full-time employment. Moreover, the cooking and preparation-type duties typically involved in working in a deli are likely to be more familiar, at least historically, to women. Despite this dominance of female deli department managers and employees, the vast majority of headquarters deli directors are males. Although this situation is primarily thought to result from the very recent growth of the deli before many women have had experience enough to warrant promotion to senior positions, several male deli directors acknowledged that communication and motivation barriers occasionally arise due perhaps to their often all female staffs.

Generally full-time employees in the deli include a manager and one or more assistant managers, often either a night manager or the manager of a cheese shop or hot food section. The deli manager often takes responsibility for the meat section of the deli, still the largest single sales category. However, all deli employees are usually required to have a thorough working knowledge of the entire deli department. Managers are generally evaluated on a number of operating criterion, including sales, distribution, margins, inventory control, shrink, labor, productivity, and others.

Because the deli is one of the few remaining areas in many supermarkets where shoppers have an opportunity to talk with store employees, special care should be taken in selecting the deli sales force. In addition to the requisite of being personable with customers, store-level deli staff must be knowledgeable about products carried (sometimes as many as 1000 different items). Companies generally encourage employees to be creative and innovative in their sales and merchandising techniques and, often, in product preparation. The personal contact with customers offers many possibilities for suggestive selling, often not possible in other departments.

The majority of deli clerks are part-time employees. One deli executive responding to the Cornell survey reported having as many as 30 part-time deli clerks working in one store. The issue of part-time versus full-time deli employees is discussed in Section IV.

Employee Hiring: The hiring of store level deli employees is generally the responsibility of individual deli managers. When asked to identify the key characteristics desired when hiring personnel, deli managers in this study included the following: personableness, aggressiveness, knowledge, ability to be a fast learner and follow instructions, quality-mindedness and neatness. One deli manager stated that he hires people based on personality rather than experience. For him, technical knowledge is only a point of departure and understanding how to deal with customers is the criterion for ultimate success. Another manager

said she would much prefer to hire non-experienced individuals for the deli because she likes to train them herself.

Training: The service orientation of the deli and the technical skills necessary for product merchandising and, in some cases, product preparation, require employees who are properly trained. Adequate employee training requires time as well as money. One study reported that, on average, an employee receives 42 hours of training when hired to work in the deli department (Table 2.4). Nineteen percent of the retailers surveyed for this study provide at least 81 hours of training for each of their deli employees.

Deli executives indicated that by far the most popular training method for deli staffs is on-the-job training (OJT). In fact, for some companies OJT represents the extent of the deli employee training program. For others, however, OJT is supplemented with a variety of deli manuals, seminars and other audio-visual techniques.

In recent years, trade associations too have played a role in training. A number of deli training video tapes, for example, have been developed over the past several years covering issues such as deli sanitation, equipment use, safety and customer service. The International Cheese & Deli Association (ICDA) has recently compiled a pamphlet listing numerous slides and tapes on cheese and deli operations available for sale or rent. Topics include merchandising, customer profile, employee motivation and

TABLE 2.4

Training Time for a Typical Deli Employee

Number of Hours	Percent of Retailers
10 or less	8
11-20	28
21-30	22
31-40	20
41-80	3
81 or more	19
Average Hours Per Employee	42

Source: Progressive Grocer, September 1986.

training, improving sales and European merchandising techniques (ICDA, 1983). Recently, the Food Marketing Institute and the International Dairy-Deli Association also provide deli training materials in greater amounts. In addition, many deli suppliers have recently begun to develop programs to aid retailers in training employees. For example, one deli meat supplier offers retail customers video tapes on demographics and sampling, proper case merchandising and service. Another supplier, a premium salad manufacturer, offers information on presentation, serving suggestions, nutritional information, and merchandising seminars (Exhibit 2.1).

To aid in communication and coordination between headquarters and store level, most deli departments use some form of weekly information "bulletin" as an additional training tool (Exhibit 2.2). This bulletin can be extremely useful in improving coordination between these two channel levels. Bulletins are used to convey a wide range of information, including prices and sizes of newly authorized products, deli merchandising ideas, products to be advertised and promoted, training programs, and correspondence from customers.

Full Service and Self Service Deli Departments: There are two major classifications of delis: full service and self service. A full service deli is one where deli personnel are available at all times to service and assist customers. It is generally a more personalized department than the self service deli because employees can slice meats and cheeses to the specifications of the customer, as well as offer suggestions and answer questions about product offerings.

In a self service deli department, customers generally help themselves to prepackaged products available in display cases. Deli personnel are usually not available to cater to the specific desires of customers and product variety is generally limited, but comparable quality and perhaps greater convenience are likely to exist when compared to the full service deli.

Although this report encompasses all types of supermarket delis, the primary emphasis is on the full service delicatessen. The definition established for a deli in this study is: "An autonomous full service supermarket delicatessen which offers a wide variety of prepared foods displayed in both full and self service cases, not including prepackaged pegboard cold cuts and/or cheeses." However, all the full service delis in this study also included some form of a self service case containing cheeses, salads, pizzas or other deli items that may have been cut and/or wrapped prior to displaying. Generally meats offered in a full service deli operation are only available through the assistance of a deli employee. Similarly, with the exception of the newly emerging "soup bars", when hot foods are offered in the deli, they generally are available only through deli staff.

EXHIBIT 2.1

Supplier Training Program

Orval Kent presents

The SIGNATURE SALAD 'n'

SANDWICH SEMINAR

A professional approach to organizational effectiveness and profit-building, developed in response to the growing consumer demand for fresh sandwiches.

SALAD 'N' SANDWICH COURSE 101 – "THE BASICS"

Description

A practical "hands-on" course illustrating basic procedures for developing a successful sandwich program. Designed for store counselors, managers, store owners, deli employees, and sandwich counter employees alike.

Course Outline

- ◇ Identifying sandwich industry/food trends
- ◇ Understanding your customer
- ◇ Developing a successful sandwich program
- ◇ Step-by-step sandwich-making guidelines
- ◇ Profit and pricing structures
- ◇ Product display techniques

SALAD 'N' SANDWICH COURSE 202 – "TARGETING YOUR PROGRAM"

Description

An in-depth program for increasing sales and building profits with your sandwich program. Designed for aggressive managers, owners, and employees seeking to capitalize on new opportunities for a competitive advantage.

Course Outline

- ◇ Opportunities for growth in the convenient food industry
- ◇ Learning from success
- ◇ Creating and building consumer awareness and interest
- ◇ Developing a competitive edge with variety and specialties
- ◇ Targeting trends for creative theme programs and merchandising techniques
- ◇ Training programs, consistency, and consumer trust
- ◇ Sanitization

SALAD 'N' SANDWICH COURSE 303 – "PROGRAM ENHANCEMENT"

Description

A creative workshop for attracting customers through product eye appeal and wider product applications. Designed for the savvy retailer who leaves nothing to chance.

Course Outline

- ◇ Setting yourself apart from the crowd
- ◇ Creative garnishing techniques
- ◇ Developing your party-platter business
- ◇ Holiday and special theme promotions

Certificates of achievement issued for course completion.
Seminar dates and eligibility requirements to be announced.

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Printed in the U.S.A.

EXHIBIT 2.2

Weekly Deli Bulletin

DELI NEWS

July 30, 1984

STRIVE FOR 5 by MANAGING THE MIX

Strive for 5

w/e August 18, 1984

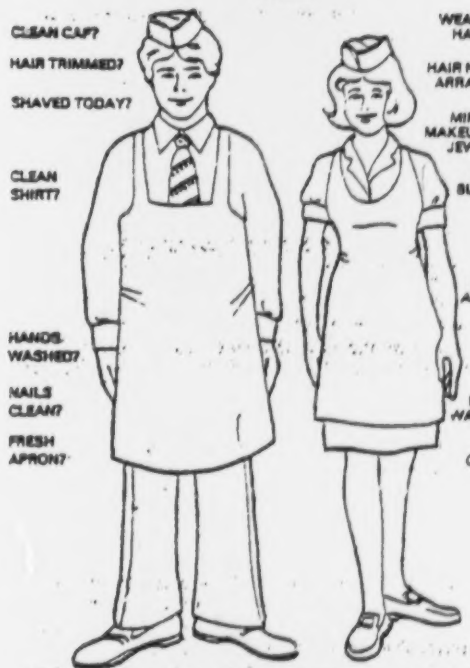
Item: Bulk Pepperoni
Supplier: MDC
Retail: $3.59
Margin: 43%

* Massive displays on top of case, (where allowed) or in your designated refrigerated area.

Look your Deli best!

Check your appearance — the customer does.

SMILE! IT HELPS MAKE YOUR JOB MORE PLEASANT AND THE CUSTOMER HAPPIER



To the Customer, You ARE the Deli. Your Appearance and Courtesy Help Shape the Entire Store Image. Start the Day Right with an Appearance Checkup!

* Remember to Survey your Bridgeford sausage order. Talk with your meat manager about this.

Bob

An overwhelming majority of the food stores that have delis (83 percent) now operate a full service deli counter (Table 2.5). Only 17 percent of supermarket delis were strictly self service. Almost all delis in the Northeast, Southeast and East Central regions operate full service deli counters. In contrast, two-thirds of the delis in the West Pacific region operate self service delis rather than full service.

Delis have been offered on average in Northeastern supermarkets longer than in any other region (Table 2.5), again primarily due to the introduction of delis in the greater metropolitan New York City area as early as the 1930s. Delis in the West Pacific region, however, generally due to their location in newer and larger stores, tend to be larger than other regions; in fact, nearly 50 percent larger than their East Central, Southeast and West Central counterparts. The average deli counter length is 29.4 linear feet (Table 2.5).

In-Store Deli Locations: Sections of the deli are generally organized and set up in one of two ways: the traditional approach, against the wall or, more recently, in the center of the aisle (cheese island, salad bar, pizza cart, etc.). A number of philosophies exist regarding the optimal deli location within the supermarket layout or design but most deli executives agree that somewhere near the high traffic areas around the perimeter of the store is ideal. Many companies in the 1980's have

TABLE 2.5

Selected Deli Characteristics, by Region

	Total	North-east	East Central	South-east	West Central	South-west	West Pacific
Service (%)	83	98	97	98	83	88	33
Self Service (%)	17	2	3	2	11	12	67
	100	100	100	100	100	100	100
Average Age of Deli (yrs)	7.6	9.5	6.3	7.1	7.1	6.7	6.7
Average Counter Space (ft)	29.4	30.1	25.5	27.8	26.7	28.3	37.8

Source: Cornell Survey, 1985.

positioned the deli as one of the first departments a customer encounters. This approach attempts to set a certain "tone" or image -- perhaps fresh, convenient or "upscale" -- for the store and may encourage customers to spend more time and money on deli shopping. One 1986 survey reports that 57 percent of store managers interviewed prefer to locate the deli first in the traffic pattern (Table 2.6).

Other companies, however, advocate installing the deli last in their traffic flow, often just before reaching the checkout stand. Executives stated that this deli location tends to pull customers through the store, encouraging them to pick up other items along the way. Only 18 percent of managers interviewed, however, prefer this location in the traffic pattern (Table 2.6). A quarter (25 percent) of the store managers interviewed prefer that their delis be placed elsewhere in the store. Their primary choices were against the back wall and in one of the rear corners. In general, however, when building new stores, the growing tendency is to locate the deli along with other perishable departments first in line. One retail company reported an internal research study which revealed that when deli departments were relocated first in the traffic flow in remodeled and new stores, they contributed an additional two percent of sales to the store's total sales than did the departments located last in line.

Trends in Major Deli Categories

The major product categories available in full service delis are listed in Table 2.7. The percentage that each product category contributes to total deli sales varies as a function of the specific firm and the region of the country. The percentages in Table 2.7 reflect average percentages for each category reported by deli executives interviewed for this study.

TABLE 2.6

Deli Directors' Preferred Location
for Delis in the Supermarket Format

	Percent
First in Line	57
Last in Line	18
Other Location	25
	100

Source: Supermarket Business, April 1986.

Table 2.7

Major Deli Product Categories and Percent of Total Deli Sales

Categories	Percent of Total Deli Sales
Meats	41
Cheeses	21
Salads	13
Hot Foods	9
Desserts	2
Others	14
	100

Source: Cornell Survey, 1985.

Meats: The meat/poultry category represents approximately 41 percent of total deli sales (Table 2.7). In general, meats are presented in bulk form in the deli case and are sliced to customer specifications. Several companies, however, preslice deli meats in order to reduce labor during peak hours and provide convenience for customers by minimizing waiting in line. Companies with such preslicing programs also generally offer custom slicing to customers requesting it. In a variation of preslicing, many companies "wafer" slice meat products. This process involves slicing meats thinner than regular preslicing, in essence, creating large mounds of ready-to-eat meat products. Despite popularity with some retailers, however, the majority of companies interviewed do not engage in preslicing meats because in general they feel the greater probability of the meat drying out may detract from the fresh image of the deli.

Deli executives indicated that the top selling deli meat item is ham (Table 2.8), and although both boiled and baked hams are popular, boiled ham is listed as the number one seller more often. According to the deli executives included in this study, the second and third best selling deli meats are turkey breast, including smoked varieties, and roast beef, respectively. Other meats listed as being big sellers included bologna, corned beef, pastrami and liverwurst.

In many parts of the country sections of the full service meat counter are now devoted to special meat categories in attempts to cater to particular consumer segments of ethnic

TABLE 2.8

Best Selling Deli Lunch Meats

1. Boiled Ham
2. Turkey Breast
3. Roast Beef

Source: Cornell Survey, 1985.

groups. For example, many retail companies have introduced a special section devoted only to low salt products. Moreover, depending on demographics, Kosher, German, Italian and Polish meat sections are also appearing in delis in selected stores around the country.

Cheeses: Cheese products follow meat/poultry as the second largest contributor to deli sales, approximately 21 percent. Cheese products, however, are usually offered both in the full service case and in the self service case. A principal reason offered by executives for this practice is that cheeses are not as highly perishable as meats. Cheeses offered in the full service case are generally in bulk form but may also be presliced or wafer sliced. The bulk cheeses are then cut-to-order in similar fashion to the bulk meats. Bulk cheeses are generally domestic cheeses used primarily for sandwiches.

In addition to the cheese items in the full service case, most deli departments have a self service, or "coffin" case in industry parlance, displaying precut and wrapped cheeses. These cheeses, which most often include a large percentage of imported varieties, are generally soft-ripening and are used primarily as snack or hors d'oeuvre cheeses. The number and variety of imported cheeses carried by delis around the country has increased considerably in recent years primarily in retailer response to consumer changing tastes and preferences for more nontraditional and foreign cheeses. Most deli executives suggest that imported and domestic cheeses are complements rather than competitors. An increasingly popular cheese, and deli, merchandising principle is to provide consumers with as wide a variety as possible. Many delis, or their accompanying cheese shop or boutique, carry 400-500 imported cheeses alone.

The cheese most commonly expressed by deli executives as the best seller is Swiss cheese (Table 2.9), specifically, Jarlsberg Swiss. The second and third most popular deli cheeses are American and Muenster, respectively. In the last two years, however, sales of brie and other soft cheeses have increased substantially and have become among the leading selling cheese products in the deli.

TABLE 2.9

Best Selling Deli Cheese Items

1. Swiss
2. American
3. Muenster

Source: Cornell Survey, 1985.

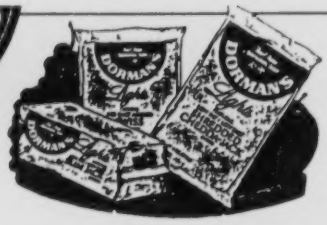
Finally, goat cheese was indicated by many deli executives as having the largest growth in sales over the last several years. Of course it must be recognized that goat cheese sales growth is calculated from a much smaller base than many other cheeses as it is a relatively new addition to the deli. One executive from the West Central region reported that sales for goat cheeses in his organization have increased by 500 percent over the level of three years ago. Goat cheese, with a characteristic delicate flavor, has less fat and is reportedly easier to digest for many consumers than other cheeses. It, along with many new cheese products lower in fat, sodium and cholesterol (see Exhibit 2.3), appears to appeal to many of the nutrition and health minded segments of contemporary deli shoppers.

Salads: The diverse salad category may be the single category most responsible for the growth in the number of deli product offerings in recent years. Today, deli salads have grown from the standard cole slaw, potato and macaroni salads to now include a wide variety of salads, many of an esoteric or gourmet nature, attempting to meet the requirements of changing consumers.

Salad preparation can take place in a number of locations. Many deli operations, for example, have turned to in-store preparation of specialty salads to better tailor offerings to individual customers' tastes. Other deli operators make greater use of salads supplied by external sources. In fact, the appearance of many regional and even national salad manufacturers has been in large part responsible for the recent dramatic increase in deli salad availability. Many salad manufacturers provide prepared salad programs in which they not only offer a complete line of salads, but also the accompanying equipment, employee training, initial case set up, consumer educational materials and follow up store visits to replace damaged equipment, suggest new products and assist with merchandising programs.

EXHIBIT 2.3

New Cheeses for the Nutrition and Health Minded Consumer



Dorman's Lights
100% cheese flavor without the extra fat, sodium or cholesterol.

Dorman's Light cheeses are a full line of cheeses with broad consumer appeal. They have all the great Dorman's cheese flavor but without all the fat, sodium or cholesterol that a growing number of consumers don't want:

No Salt Added Swiss	All natural and full flavored, but with 90% less salt than Swiss.
Low Sodium Muenster	A premium cheese with 50% less sodium than Muenster.
Lo-Chol	Made with skim milk and vegetable oil. The result—85% less cholesterol and 40% less fat than Muenster.
Slim Jack	Has 100% of the flavor of Monterey Jack but with 20% less fat, 50% less sodium and 22% fewer calories.
Chedda-Delite	Made from part skim milk, it has 20% less fat, 50% less sodium and 22% fewer calories than regular Cheddar.
Chedda-Jack	Made from two natural cheeses and shredded for easy use, Chedda-Jack has great taste but with 20% less fat, 50% less sodium and 22% fewer calories.
Low Sodium Mozzarella	Made from part skim milk and shredded for your convenience. It has 25% less sodium and 20% less fat than regular low moisture mozzarella.

N. DORMAN & CO., 125 Michael Drive, Syosset, New York 11791 • 1-800-DORMANS • TELEX #510-22-2161

Salad bars, a relatively recent introduction in the supermarket (McLaughlin and Hamm, 1985), are today more likely to be included in the deli department rather than the produce department. Vegetables and fruit are procured by the produce department, then transferred to the deli department for salad bar preparation. This shift has occurred primarily since, as many deli executives reported, deli personnel appear to be better equipped than most produce department employees in the skills necessary to prepare and maintain a high quality salad bar. Deli personnel, perhaps as a function of their experience in food service-like preparation and customer interaction, appear to be more creative in their preparation and merchandising techniques. Many deli executives whose companies do not already have a salad bar program indicated there are plans to test them in the near future. Salad bars were unanimously forecast for continued growth by deli executives in this study.

Hot Foods: Approximately 55 percent of all delis in the U.S. have a hot food case (Table 2.10). Even though many deli operations today offer some form of hot food in the deli, the size and number of offerings available depends importantly on the geographic location of the deli (Table 2.11). Typically, deli operations located in the Southeast and Southwest region devote more space to hot food programs than other parts of the country.

TABLE 2.10

Supermarket Delis Containing Hot Food Cases, by Region

Regions	Percent of Total Supermarkets
Northeast	34
East Central	46
Southeast	84
West Central	53
Southwest	80
West Pacific	30
U.S. Average	55

Source: Cornell Study, 1985.

TABLE 2.11

Types of Hot Food Facilities in Supermarket Delis, by Region

Regions	Equipped Kitchen	Non-Equipped Prep. Area	No kitchen/ Prep. Area	Total
	-- percent of all delis --			
Northeast	45	38	17	100
East Central	61	21	18	100
Southeast	86	6	8	100
West Central	71	18	11	100
Southwest	83	5	12	100
West Pacific	32	15	53	100
U.S. Average	63	17	20	100

Source: Cornell Study, 1985.

A major challenge confronting deli retailers with respect to hot foods programs has been the maintenance of proper temperatures, while also meeting health standards and merchandising appeal. The use of steam tables often tends to dry the product out when maintained at the temperature generally required by the health departments (approximately 140 degrees). For this reason, many companies have abandoned the use of steam tables and now offer complete entrees already prepared and cooked, but in a cold state. These products are ready to be heated, or "oven-ready", either in a microwave behind the deli counter by a deli employee, or by the consumer in a microwave or conventional oven at home. Manufacturers now provide many of these products in a frozen, yet already cooked, form that can be displayed either in their original containers or can be transferred to the retailer's own, often more distinctive, containers.

Hot entrees are generally positioned under the counter in the full service area of the deli department. However, hot and frozen soups, also a part of this category, are generally included in self service displays. With the increase in popularity of salad bars and recent supermarket emphasis on lunch time business, hot soup programs have become more common in supermarket deli operations. These programs are often included as part of a salad bar. In addition to hot fresh soups, a few retail companies have begun producing their own soups and offering them

frozen in a self service case in the deli or in the frozen foods department. These soups become, in essence, a private label yet gourmet-type product.

The two most popular hot food items in all geographical areas of the country are fried and barbecued chicken (Table 2.12). These are followed closely by barbecued ribs. These three hot food categories are offered in nearly all U.S. delis. One company reported selling 700 to 800 roasting chickens per week in one store. There is also a wide variety of hot entrees offered in most delis. Some of these include items like lasagna, spaghetti and meatballs, pepper steak, stuffed peppers and cabbage, spinach rolls, hot dogs and hamburgers.

Most companies with a hot food section offer a standard menu for lunch and dinner. This menu might include macaroni and cheese, chicken, ribs, oriental meatballs, hot dogs, etc. Often a special meal is included on the menu each day at a fixed price. This meal is likely to include a main entree, such as roast beef or fish, potatoes, a vegetable, bread and drink. In some areas, particularly in the South, breakfast is also served.

Sit-down restaurant-type areas for meals, or for a brief snack while shopping, are available most often in the West and South (Table 2.13). Sit-down areas are used mainly during the day for breakfast, lunch or snacks. Most retailer research indicates that to date a majority of customers do not like having dinner in a supermarket. They are more often willing, however, to take out their dinner from the deli and perhaps supplement it with their own vegetables and potatoes at home. Deli executives, in general, forecast in-store eating areas to expand in the future.

In addition to traditional lunch and dinner entrees, many retailers attempt to differentiate their deli departments by offering ethnic hot food sections. The most frequent examples include Mexican, Asian, Italian and German sections.

TABLE 2.12

Best Selling Hot Food Items

1. Fried Chicken
2. Barbecued Chicken
3. Barbecued Ribs

Source: Cornell Survey, 1985.

TABLE 2.13

Supermarkets With Sit-Down Eating Facilities, by Region

Region	Percent of Total Supermarkets
Northeast	4
East Central	4
Southeast	7
West Central	10
Southwest	18
West Pacific	6
U.S. Average	8

Source: Cornell Survey, 1985.

Desserts: Desserts contribute less to total deli sales than any other major category listed, approximately two percent. This is at least partly due to the bakery department now found in most newer food stores. The bakery is commonly located adjacent to the deli department but, as explained above, is increasingly likely to be independent from it. Thus in order to avoid direct competition between these two high margin, high turnover service departments, most delis do not often carry an extensive line of dessert type foods or baked goods. Some companies, however, do carry a line of specialty, often imported desserts and candies to help promote the high quality, gourmet image of their deli department.

Others: Recently, the "other" category has been contributing a greater proportion to deli sales. This study shows that a "miscellaneous category items" represented about 14 percent of average deli sales. Pizza, for example, is one of the most important items in this category. Many retail firms have added pizza programs in the last two years. Most of these pizzas are assembled on the premises by deli employees, even though the ingredients and dough may often be prepared elsewhere. In several companies, a deli employee spends much of the day preparing pizzas in full view of customers. These companies reported that such a merchandising technique is very effective in creating impulse purchases. Pizzas in some stores are also made to order for customers. One executive reported pizza sales

increased 67 percent from 1984 to 1985. Another retail chain offers customers a standard selection of 77 different pizzas, varying in thickness, variety of crust, topping combinations, and size of pizza (Exhibit 2.4). Additional varieties are available upon request. This type of comprehensive pizza program is an example of an increasing number of retailer attempts to attract a portion of the growing away-from-home food business into the supermarket.

Party platter and catering programs are also very important to many current deli operators (Table 2.14). Deli executives typically report dramatic sales increases in party platters during holiday seasons, graduations, weddings, and other special occasions. One company, for example, generates over $4 million in business, and another reported that party platters account for 25 percent of total deli sales. All but one company in this study assembles party platters at store level, even though many ingredients may be prepared at a central commissary. One company does all platter preparation at its commissary in order to have more labor hours available for other duties at store level.

Delis in stores located near office complexes have reported increasing success with sandwich programs for lunch time business. Many delis have sandwich boards behind the counter presenting different combinations of breads, meats and assorted side items. Such delis frequently have beverages available

EXHIBIT 2.4

Retailer Pizza Menu

rainbow deli foods fresh pizzas

11 varieties	small 10" thin crust	medium 12" thin crust	medium 12" thick crust	medium 12" pan & crust	med. 12" whole grain thick	large 15" thin crust	large 15" thick crust
pepperoni & cheese	2.19	3.59	4.59	4.79	4.79	5.19	6.19
sausage & cheese	2.19	3.59	4.59	4.79	4.79	5.19	6.19
hamburger & cheese	2.19	3.59	4.59	4.79	4.79	5.19	6.19
taco & cheese	2.69	4.19	5.19	5.29	5.29	5.59	6.59
reuben & kraut	2.69	4.19	5.19	5.29	5.29	5.59	6.59
deluxe - pepp., saus, mush., gr. pepper, onions & olives	3.19	4.59	5.59	5.79	5.79	6.19	7.19
pepperoni & mush w/lettuce	2.39	3.79	4.79	4.99	4.99	5.29	6.29
sausage & mush w/lettuce	2.39	3.79	4.79	4.99	4.99	5.29	6.29
cheese	2.19	3.59	4.59	4.79	4.79	5.19	6.19
pepperoni & sausage	2.69	4.19	5.19	5.29	5.29	5.59	6.59
vegetarian - mush., olive, peppers, onion & lettuce	2.19	3.59	4.59	4.79	4.79	5.19	6.19

extra toppings...small 25¢, medium 50¢, large 75¢

TABLE 2.14

Catering Services in Supermarket Delis, by Region

Region	Percent
Northeast	88
East Central	95
Southeast	85
West Central	83
Southwest	72
West Pacific	38
U.S. Average	77

Source: Cornell Survey, 1985.

(sodas, milk, coffee, tea), and cash registers at the deli counter to facilitate quick check-out for increasingly time conscious lunch time shoppers. One retail deli executive reported 350-400 sandwiches sold per week in office area stores. These are primarily sandwiches prepared and wrapped in advance and sold from a self service refrigerated case.

Fresh pasta has also become a popular product in U.S. deli departments. There are several manufacturers who now provide pasta products to retailers. However, many retailers have recently begun their own fresh pasta production in the stores. Pasta is offered in a variety of appealing colors, shapes and flavors (spinach, tomato, egg, etc).

In addition to these relatively new offerings and programs, there are a wide number of other novelty items that have not traditionally been a part of the supermarket deli department. These differ, of course, according to regions, companies and often even individual stores. Such products include deli breads (rye, kaiser rolls, etc.), bagels, bagel and nacho chips, rice cakes, pickles, salad dressings, popcorn, jelly beans, homemade ice creams, fresh orange juice, fresh yogurt, barbecue sauce, smoked fish and lobster. Also many "gourmet" items carried by supermarkets are included in the deli department. Common examples are cooking oils and vinegars, pates, jams, chutneys, mustards and other spices.

SECTION III

DELI CONSUMERS AND EXECUTIVES: PERCEPTIONS AND BEHAVIORS

Although the relatively recent introduction of the delicatessen to supermarkets is generally acknowledged as a strategy to better meet the demands of today's changing consumers, in fact, little information exists to document consumer perceptions or behavior with respect to this new department. This section reports on a survey of consumer shopping habits and perceptions and deli executive perceptions concerning the supermarket deli. This survey constituted a major component of the current deli research project. Results in this section are based on personal interviews with 490 consumers and over 100 deli executives and managers.

Demographics of Deli Shoppers

Consumers were randomly selected from store shoppers, primarily in and around the deli department. Most (90 percent) of the deli consumers interviewed were caucasian women. As Table 3.1 shows, 46 percent of deli shoppers interviewed were between the ages of 18 and 34, 43 percent between 35 and 54, and 11 percent were 55 years or older. A comparison of the age distribution of deli shoppers to that of total supermarket shoppers reveals that shoppers in the 18 to 34 and 35 to 54 age groups make up a larger proportion of deli shoppers than they do of supermarket shoppers in general. Moreover, 29 percent of total supermarket shoppers are 55 years and over compared with only 11

TABLE 3.1

Age of Shoppers: Deli and Total Supermarket

Age	Deli Shoppers	All Shoppers
	-- Percent --	
18-34	46	41
35-54	43	30
Over 54	11	29
	100	100

Source: Cornell Survey, 1985.

percent of deli shoppers. The deli appears to be relatively more attractive to younger shoppers who, likewise, may be more apt than older shoppers to be responsible for some of the changes giving rise to the deli's growth, such as the demand for convenience, higher quality products and with less resistance to higher prices.

Income levels for deli shoppers and all supermarket shoppers are compared in Table 3.2. Over two-thirds of the deli consumers interviewed have a total household income greater than $30,000, while only one-third of all supermarket shoppers maintain this income level. Furthermore, only about 11 percent of deli shoppers have a household income of less than $20,000 compared with almost half of all supermarket shoppers. These statistics clearly indicate that deli shoppers, on average, are more likely to be from middle to upper income households than are all supermarket shoppers.

A majority of deli shoppers come from a household consisting of two, three or four members (Table 3.3). The most notable household difference between deli shoppers and total supermarket shoppers is that only ten percent of deli shoppers surveyed were from one-member households, compared with 23 percent of all supermarket shoppers.

TABLE 3.2

Household Income of Shoppers:
Deli and Total Supermarket

Income	Deli Shoppers	All Shoppers
$(000)	-Percent-	-Percent-
Under 10	2.5	22.8
10-19	9.1	25.0
20-29	18.7	19.3
30-39	23.1	13.2
40 and Over	46.6	19.7
	100.0	100.0

Source: Cornell Survey, 1985.

TABLE 3.3

Household Size of Shoppers:
Deli and Total Supermarket

Number of Members	Deli Shoppers	All Shoppers
	-Percent-	-Percent-
1	9.9	22.9
2	26.3	31.5
3	23.8	17.6
4	25.3	15.9
5	8.9	7.3
6	3.0	2.9
7 and Over	2.7	1.9
	100.0	100.0

Source: Cornell Survey, 1985.

A review of these three demographic characteristics of deli shoppers points to significant opportunities for deli sales to single and low income households and, perhaps especially, to the "55 years and older" age group. An emphasis on convenience and service and the ability to slice and package products to order should allow the deli to meet the needs of older shoppers. However, since the deli is a relatively new department in the supermarket, there appears to be a need for better communication regarding the benefits of the deli to these age and income groups. Conversely, retailers and deli suppliers need better understanding of the particular requirements of this group.

Perceptions of Deli Shoppers and Deli Executives

In addition to consumer interviews, over 100 deli executives and managers from 31 retail/wholesale companies were interviewed. In most cases, the interview process began with the highest ranking deli official in each company. A detailed questionnaire was completed by this top level deli executive at 28 companies (Appendix A). These executives carried a variety of titles, for example, Director of Deli Merchandising, Director of Deli Operations, Director of Deli Marketing, Deli Supervisor and Deli

Buyer. Furthermore in almost all companies an additional number of deli executives and mangers, both at headquarters and in various stores, were questioned regarding deli operating practices and economic issues. In the majority of cases, a full day was spent with each company.

In this section, the data and information collected from these interviews are summarized. Comparisons are made between the two groups of respondents, deli executives and deli shoppers, in an effort to identify similarities and differences between actual shopping habits and perceptions of these shopping habits. Such disparities point to areas where the deli industry may be able to develop initiatives to improve the image and performance of the deli department and the entire industry.

Store Selection Criteria: First, consumers were asked to indicate the primary reason for choosing a particular supermarket. Table 3.4 lists the most common responses, as well as the percent of consumers interviewed specifying each response as their primary criterion for selecting a store.

An overwhelming majority (65 percent) of deli consumers interviewed stated that convenience was their primary reason for shopping at a particular supermarket. A distant second reason was low price (9 percent), followed by quality and variety (both at 8 percent). These results contrast to several surveys of all supermarket shoppers. For example, one recent survey of random supermarket shoppers (not necessarily deli shoppers) showed that "Cleanliness" was the most important factor in their supermarket selection, followed by "All prices clearly labeled", "Low prices", "Freshness date marked on products", and "Accurate, pleasant checkout clerks". "Convenience" in this "all shopper" survey was rated eighth (Progressive Grocer, April 1986).

Deli consumers therefore appear more concerned with convenience when making decisions on where to shop than are all shoppers on average. This is not surprising given the greater premium that two-income families place on the value of their time. Most deli consumers agreed, however, that the other criteria were ultimately important characteristics for a supermarket to possess. In fact, many stated that if a store did not meet certain minimum standards relative to these other characteristics, another store would probably be chosen. Thus, in an important sense, the criteria of quality, cleanliness and low price are often taken as "given" by consumers.

Deli executives were confronted with the same question, except they were asked to speculate about the criteria most important to their customers when choosing a supermarket. The greatest number (39 percent) stated that their consumers' primary concern when choosing a store was quality (Table 3.4). Convenience followed closely (36 percent). However, many executives

TABLE 3.4

Important Shopping Characteristics:
Total Supermarket

Characteristic	Deli Consumers	Deli Executives
	-Percent-	-Percent-
Convenience	65	36
Low Price	9	4
Quality	8	39
Cleanliness	3	0
Service	2	11
Other	13[a]	10[b]
	100	100

[a]Includes "Variety" (8 percent), "All of the above" (2 percent), "Deli" (1 percent) and "Miscellaneous" (2 percent).
[b]Includes "All of the above" (10 percent).

Source: Cornell Survey, 1985.

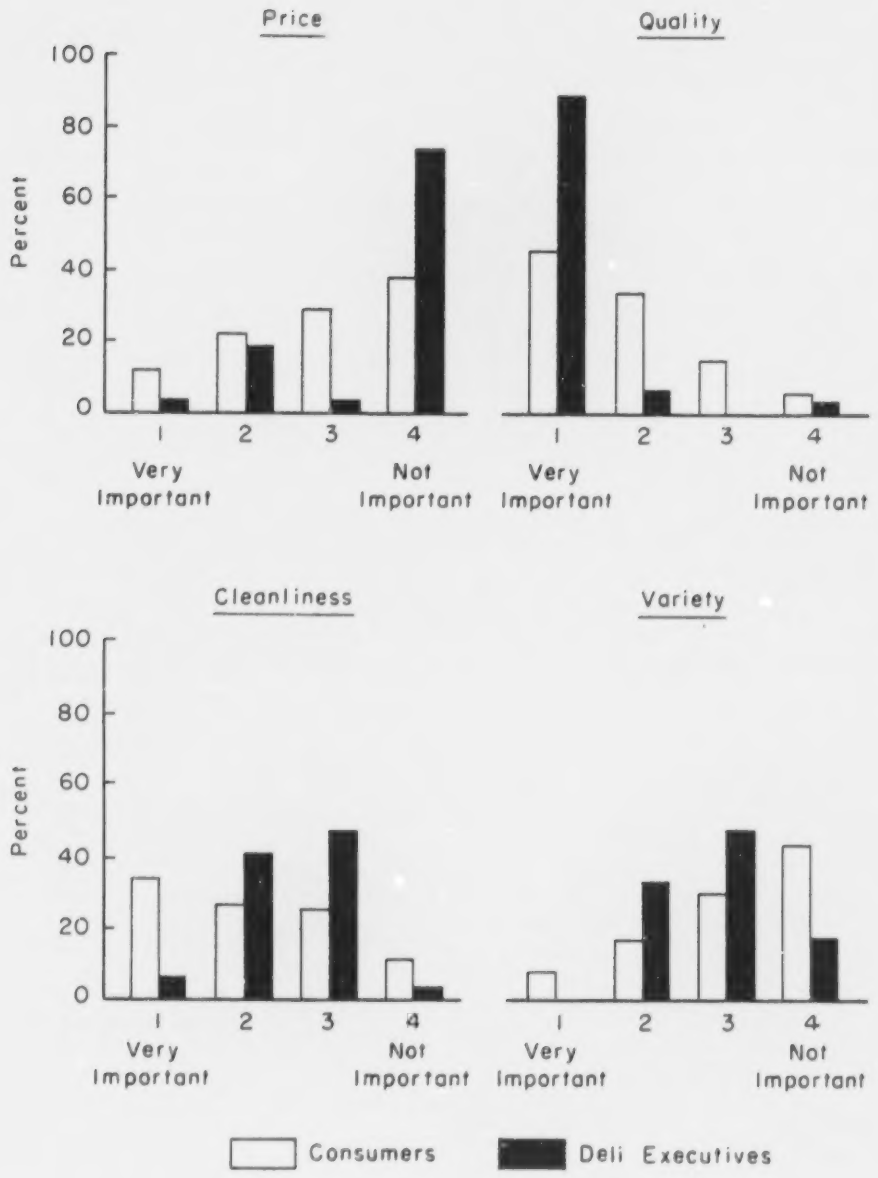
added that they like to believe it is the quality of their merchandise that attracts shoppers but many realistically recognized that convenience is often more likely to be the shopper's primary concern when choosing a supermarket. None of the deli executives interviewed listed cleanliness as the most important criteria for choosing a supermarket.

Important Deli Characteristics: Deli shoppers were asked to rank four characteristics most important to them when shopping the deli department. Table 3.5 lists the four characteristics as well as the percent of deli shoppers and deli executives ranking each "1" and "4" ("1" very important and "4" not important).

Quality was specified by the largest number of deli consumers (46 percent) as the most important characteristic when shopping in a supermarket deli (Table 3.5). This was followed closely by cleanliness (34 percent). Variety and price were ranked "4" by 44 and 38 percent of deli shoppers respectively. Thus, although "convenience" plays the largest role in attracting

TABLE 3.5

Important Deli Characteristics



Source: Cornell Survey, 1985.

deli shoppers to a particular supermarket, quality, however defined, seems to be one of the primary reasons deli shoppers shop the deli once in the store. These findings also suggest deli shoppers may not be highly price sensitive, and, in fact, may be willing to pay a higher price to get the superior quality products they desire.

Following the mirror-image interview technique, deli executives were asked to indicate how their consumers would respond to this question on the ranking of deli characteristics. As Table 3.5 shows, 89 percent of the executives interviewed feel quality is the most important characteristic to a deli shopper, while 74 percent feel price is the least important. These responses generally mirror the consumer responses for these same characteristics. However, industry leaders must not overlook additional factors that may be very important to the customer when shopping in the deli department. A case in point is the larger percentage of consumers who rated cleanliness as very important when shopping in the deli relative to the rating it received from executives.

Although deli consumer data obtained through in-store interviews were analyzed on a regional as well as national basis, in most cases there were few or no regional differences in deli shopper attitudes and perceptions. However, several exceptions are noted. In three of the four regional designations, North Central, South and West (see Appendix C for regional designations), an average of only eight percent of deli consumers rated price as the most important characteristic in the deli while 45 percent rated it least important when compared against quality, cleanliness and variety. However, 20 percent of deli consumers in the Northeast rated price as most important and only 25 percent rated it as least important. Apparently, Northeast shoppers are more sensitive to deli prices than shoppers in the other regions of the country (see discussion of brands in Section VI).

Deli shoppers were asked to define more clearly their shopping behavior and attitudes toward the deli by indicating which of four possible responses best described their supermarket shopping habits (Table 3.6). Eighty percent of those who shop in the deli feel that it is an important department within the supermarket; however, only nine percent indicated it is the reason for their choosing their particular store. Twenty percent of deli shoppers stated that the deli was not of major importance and that they would not strongly object if it was not included in the store. It should be recalled, however, that these responses come from consumers who are already deli shoppers. Responses are likely to be quite different -- presumably a weaker support for deli importance -- from the approximately 75 percent of all shoppers who do <u>not</u> shop from the deli.

TABLE 3.6

Deli Consumer Shopping Behavior

Alternatives	Consumer Response -Percent-
I shop this store because of its deli.	9
Once I am in the store, I shop the deli.	32
Deli is important, but not a sole criterion.	39
Deli is not that important.	20
	100

Source: Cornell Survey, 1985.

Deli Shopper Behavior: Almost two-thirds (63 percent) of deli consumers interviewed made deli purchases on the day they were interviewed. When deli consumers were asked why they purchase products from the deli rather than from the prepackaged meat/dairy case, they listed a variety of reasons. By far the most common response was the statement that "deli products are fresher than their prepackaged counterparts" (Table 3.7). Other common responses included "slicing to order", "higher quality" and "taste" (Table 3.7). In addition, such things as "deli variety", "fewer preservatives in deli", "convenience of deli", "out of habit" and "appearance" were also cited as reasons for shopping in the deli rather than the prepackaged departments. A few shoppers specified the low sodium section and the salad section as being primary attractions of the deli. Several customers indicated they were buying products for a special event or occasion (party, holiday, etc.) and always shopped at the deli for products to serve at these affairs.

Thirty-one percent of deli shoppers interviewed also purchased prepackaged cold cuts and/or cheese items from the meat or dairy departments on the day they were interviewed. When shoppers were asked why they did not purchase certain products or comparable products from the deli department, the responses cited most often were "convenience", "habit" and the "length of time the product is likely to remain fresh" (Table 3.8). Other common responses included a "family preference for a specific prepackaged brand", "availability", " variety", and the "presence of coupons for use on prepackaged products." In addition, one woman stated that she buys prepackaged meats and cheeses for her children, but when she is shopping for herself and her husband or for a special occasion, she makes these latter purchases from the

TABLE 3.7

Reasons Given by Shoppers Regarding
Deli Purchasing Decisions

Representative Views Regarding the Deli	Percent of All Deli Shoppers Responding n=(334)
Products are fresher	40
Prefer products sliced to order	11
Taste better than prepackaged products	9
High quality products	8
Greater variety exists	6
All others[a]	26
	100

[a]Each additional reason given accounted for less than six percent of total shoppers responding.

Source: Cornell Survey, 1985.

deli. This tended to be a common attitude among deli shoppers: higher quality products for special occasions are often associated with the deli. Another shopper stated that she and her family do not need the "high quality products" available in the deli department.

Price Perceptions: When deli shoppers were questioned regarding the existence of a price difference between deli and prepackaged meat/cheese items, 56 percent felt that a differential did exist. However, they disagreed over the direction of the difference. Forty-two percent stated that items in the deli are higher priced, while 14 percent responded that prices in the prepackage section are higher in price (Table 3.9). In addition, 18 percent stated that there is no difference in the price of items between the two departments, while 26 percent were unsure. Implications of these responses as well as those to the subsequent question on price awareness, are developed further in Section IV.

In order to determine consumer awareness regarding prices of commonly purchased deli items, consumers were asked if they had purchased boiled ham (the most commonly purchased item in the deli) at the deli in the past month, and if purchased, its price. Fifty percent of shoppers interviewed had purchased

TABLE 3.8

Reasons Given by Shoppers Regarding Prepackage Purchase Decisions

Representative View Regarding Prepackaged Products	Percent of All Shoppers Responding n=(132)
Much more convenient	36
Shop out of habit	17
Products last longer than deli products	9
Too many preservatives	5
Family prefers prepackaged brand	5
All others[a]	28
	100

[a]Each additional reason given accounted for less than five percent of total shoppers responding.

Source: Cornell Survey, 1985.

boiled ham some time during the preceding month. Forty-four percent of those purchasers were able to estimate the price paid within a 20 percent range of the actual price, but only 26 percent estimated the actual price within 10 percent. These results, at least for this one product, tend to support the hypothesis that shoppers may not be price sensitive when buying deli products, or at least may not always be aware of current price levels, and again stresses that many other characteristics (eg. quality and cleanliness) may be more important than price when shopping in this department.

Value Perception: To further evaluate price sensitivity and value in the deli, shoppers were asked if they would be willing to pay more for deli meats higher in quality than those they are currently able to buy. A majority (61 percent) indicated they would be willing to pay more (Table 3.10). The amount ranged from five cents to $1.50 more per pound for higher quality products (the average of price increases mentioned was $0.46). Most indicated, however, that perceptible difference in the quality of the products would first be required. A total of 163 consumers responded they would be willing to pay more, but rather than specify a specific dollar amount, they pointed out that the additional amount they were willing to pay would depend on the perceived level of quality improvement. Once again these findings emphasize the importance of factors other than price when shopping in the supermarket delicatessen.

TABLE 3.9

Deli Consumer Price Perceptions

	Percent
Deli Prices Higher	42
Prepack Prices Higher	14
No Difference In Prices	18
Unsure	26
	100

Source: Cornell Survey, 1985.

When deli executives were asked this same question regarding their customers, only 43 percent felt deli shoppers would be willing to pay more for higher quality products (Table 3.10). The average executive estimate was that deli shoppers would be willing to pay approximately 50 cents per pound more for deli meats higher in quality than currently available. Although consumers' responses in Table 3.10 indicate deli executives were earlier justified in placing great importance on quality in the deli department (Table 3.5), deli executives were apparently not as prepared to commit consumers to paying more for higher quality as consumers actually said they would be.

In a further attempt to assess the value image of the deli, consumers and executives were asked to rate the quality of each of three categories of deli products as either excellent, satisfactory or poor. The three categories and responses of consumers and executives are categorized in Table 3.11.

TABLE 3.10

Willingness to Pay More for Higher Quality Sliced Meats and Cheeses in the Deli

	Deli Consumers	Deli Executives
	-- Percent --	
Yes	61	43
No	39	57
	100	100

Source: Cornell Survey, 1985.

TABLE 3.11

Quality Rating of Deli Product Categories

	Excellent	Satisfactory	Poor	NA[a]	Total
		--- Percent ---			
Deli Consumers					
Sliced Meats and Cheeses	50	44	1	5	100
Prepared Salads	26	29	6	39	100
Hot Foods and Soups	16	16	1	67	100
Deli Executives					
Sliced Meats and Cheeses	89	11	0	0	100
Prepared Salads	57	43	0	0	100
Hot Foods and Soups	54	36	4	7	100

[a]Represents those consumers who do not buy products in a particular category. In the case of hot foods and soups, part of this rating can be attributed to two companies, representing 40 consumers, that do not offer hot foods and soups in the deli.

Source: Cornell Survey, 1985.

Overall the majority of deli shoppers rated each category at least "satisfactory" (Table 3.11). For example, 94 percent of consumers rated sliced meats and cheeses as either satisfactory or excellent. Although deli executive perceptions were somewhat more skewed toward excellent, they generally correspond with ratings given by consumers when the top two categories are evaluated together.

A significant finding revealed in Table 3.11 is that 39 percent of all deli shoppers interviewed do not buy prepared salads, and 67 percent do not buy hot foods and soups. Part of the low rating for hot foods and soups can be attributed to 40 of the consumers surveyed from two companies where no hot foods or soups were available in the deli. However, in the remaining cases the high "NA" percent for prepared salads and most of the hot foods and soups represent consumers who do not buy and, in most cases, have never even tried these products in the deli.

These figures strongly suggest need for innovation and improvement in the salads and hot foods categories. Furthermore, in these latter two areas, Table 3.11 indicates that executives' perceptions appear terribly "out-of-touch" with contemporary shopper attitudes.

A regional comparison of quality ratings by product category revealed that fewer deli consumers in the South rated prepared salads and hot foods excellent than in other regions of the country. Additionally, a larger percentage of Southern consumers never buy these products in the deli compared to consumers from other regions. Only 11 percent of Southern deli consumers rated prepared salads excellent (compared to an average of 34 percent in the other three regions), while only seven percent rated hot foods excellent (compared to an average of 22 percent in the other three regions). In addition, 54 percent of Southern region deli consumers never buy prepared salads (compared to an average of 32 percent in the other three regions) and 79 percent never buy hot foods (compared to an average of 58 percent in the other three regions). This represents a substantial percentage of Southern deli consumers not buying hot foods, especially considering hot food departments are more prevalent in this region than in other regions of the country (see Table 2.10, Section II). In the Northeast region, only ten percent of deli consumers rated hot food products excellent, while 74 percent never buy them.

Desirable Deli Additions: Consumers also selected desirable additions to deli departments. From a list of seven alternatives, they were asked to choose the three that most interested them, rating them "1" to "3" ("1" the most interesting, "2" second, etc.). A weighted ranking of the seven alternatives is listed in Table 3.12.

TABLE 3.12

Ranking of Additions to the Deli Department

Deli Consumers		Deli Executives
Nutritional Information	1	Advice and Suggestions
Sampling/Demonstrations	2	Sampling/Demonstrations
Advertising	3	Nutritional Information
Hot Foods	4	Low Sodium Items
Low Sodium Items	5	Advertising
Advice and Suggestions	6	Hot Foods
Catering/Party Platters	7	Catering/Party Platters

Source: Cornell Survey, 1985.

Consumers indicated they would most like to see more nutritional information offered in the deli. They also appeared very interested in more sampling and demonstrations and more advertising regarding product availability in the deli department. Note that consumers seem very interested in the hot food category, although, perhaps due to poor quality perceptions, many do not regularly buy these items (Table 3.11).

Deli executives again ranked the alternatives from the perspective of what their customers would like to see added or improved in the deli. A relative weighting of alternatives by executives is also listed in Table 3.12. Deli executives felt that consumers would be primarily interested in receiving more advice and suggestions from deli salespeople. In fact, 50 percent of deli executives interviewed rated this first. Only five percent of consumers gave this alternative a "1" rating; the majority ranked it number six. This may either suggest that consumers are satisfied with current advice and suggestions from deli personnel or simply that consumers regard nutrition and sampling as much higher priority areas than executives think they do.

Non-Deli Shoppers

A number of studies have found that only approximately one out of every four supermarket shoppers regularly makes a deli purchase (Supermarket Business, October 1984; FMI, 1986). In this study, in addition to 403 deli shoppers interviewed, 87 non-deli consumers were questioned. These shoppers were asked to indicate their reasons for not shopping in the delicatessen. A variety of reasons were identified, even though many stated there really was no one special reason. Many consumers pointed out that they frequently shop in an independent, freestanding deli for their meat and cheese product purchases. Others indicated they do not eat lunch meats and cheeses and, presumably unaware of or uninterested in the many other items now carried in most delis, stated that they had no need for a deli. Other reasons given for not shopping in the deli include a perceived high price, delays due to waiting in line, habits of using comparable prepackaged products, including a perception that prepackaged products stay fresher longer due to the special packaging and preservatives added.

Finally, non-deli consumers were asked if they had purchased prepackaged cold cuts or cheese items from the meat or dairy departments during that particular shopping trip. A total of 31 (36 percent) had purchased items from one of these departments. When asked why they had not purchased these items from the deli, the most common single response was convenience. Most stated it was more efficient (eg, time-saving) to simply pick up the product from one of these other departments than to wait to be

served by deli personnel. Other responses included lower perceived price for prepackaged items, long established habits of buying in the prepackaged section, brand loyalty to a prepackaged item, variety and the ability of the product to stay fresher longer.

SECTION IV

COST AND PERFORMANCE MEASURES OF SUPERMARKET DELIS

The service orientation of the deli coupled with the perishable nature of its products create a unique cost structure and generate performance results that differ from other supermarket departments. This section examines key cost components of the deli, in particular the dominant cost, labor, and presents information regarding selected performance indicators such as gross margin and productivity measures.

Key Cost Components

Labor: In recent years, top management of food retail organizations has increasingly expected the so-called "service" departments to provide the differentiation required for survival in today's competitive retail environment (McLaughlin and German, 1984). Supermarket deli departments, as part of this phenomenon, have responded by offering services not found in other departments: gourmet entrees, custom slicing of meats and cheeses, and special occasion catering are only a few examples. With rare exception, the deli is a service department: a major attraction consists of providing customers with products prepared and packaged to their own, often unique, specifications. Accompanying these high service levels, however, are high labor costs.

Virtually all deli executives interviewed for this study agree that the most critical factor in operating a successful supermarket deli is labor. Labor requirements for full service delis are generally higher than for any other department in the supermarket. Results from this study indicate, for example, that labor costs for chain delis constitute 22.4 percent of deli sales. This compares to an average storewide labor cost of only 9.79 percent of sales for all food chains (McLaughlin and Hawkes, 1985).

Exhibit 4.1 shows a portion of an actual deli department profit-and-loss statement for a representative large food chain with approximately 120 store. The year-to-date figures shown cover approximately 11 reporting periods. As of the reporting date, this particular chain recorded $56 million in deli sales, representing 4.26 percent of total store sales. Total store level deli expenses represent 26.83 percent of total deli sales. Moreover, labor expenses alone (eg, wages, benefits, support wages and support benefits) represent 81 percent of the total store-level deli expenses. That is, labor costs account for 21.74 percent of this chain's total deli sales. In no other supermarket department or category do labor expenses constitute almost one-quarter of all sales.

EXHIBIT 4.1

Deli Department Profit-and-Loss Statement for a Representative Large Food Chain[a]

	Year to Date	
	Dollars	Percent
Total Store Sales	1,332,906,120	
Total Deli Sales	56,802,147	4.26
Stores Gross	20,246,728	35.64
Mfg. Inc. Commissary	769,416	1.35
Mfg. Inc. Bakery	7,944	0.01
Total Gross	21,024,088	37.01
Distribution	1,416,782	2.49
Actual Gross	19,607,306	34.52
Store Expenses:		
Wages	7,586,436	13.36
Benefits	2,482,095	4.37
Support Wages	1,716,322	3.02
Support Benefits	561,643	0.99
Other Controllables	1,111,204	1.96
Advertising	613,524	1.08
Other Non-Controllables	436,895	0.77
Occupancy	1,370,025	2.41
Other Income	(640,498)	-1.13
Total Store Expenses	15,237,646	26.83
Store Operating Gain	4,369,660	7.69
Total Deli Overhead	1,191,301	2.10
Profit/Loss	3,178,359	5.60

[a]Several reporting periods only.

Deli labor expenses, as a percent of sales, are more than twice the storewide average for a number of reasons. In addition to the normal operating expenses associated with maintaining an adequate deli staff, many companies report higher turnover rates for deli employees than for other departments. This is due both to the large number of part-time employees in the deli, as well as to the harder work often acknowledged as part of a deli employee's responsibilities. Data from this study show that 3.0 full-time and 8.6 part-time workers are employed by the average supermarket deli. Although the need for experienced, well-trained staff is often voiced, many employers in this study expressed a desire to retain as few full-time people as possible, primarily because already high labor costs and employee benefit expenses would thus be moderated. This approach to staffing may well reduce labor expenses in the short run but undoubtably costs considerably more in terms of higher employee turnover, costs of new employee training, and foregone sales that might otherwise be obtained by a more committed and knowledgeable deli staff.

One large regional chain provided key labor productivity information for six of its superstore (a supermarket with greater than 40,000 square feet) delis. Weekly averages were reported for total labor hours, items sold and sales per labor hour for these delis. Table 4.1 shows that, although considerable inter-store variation existed, the average labor necessary to operate these delis was 363 hours per week. The average number of items sold per deli labor hour was 21, and the average sales per labor hour was $37.96. When these figures are compared with comparable superstore storewide averages (Table 4.1), it becomes clear that deli labor productivity lags behind the rest of the store by considerable extents. Total deli labor costs therefore account for a significantly greater proportion of sales than for most other supermarket departments.

Wage Rates: Despite high total labor costs, actual wage rates and benefits for deli staffs in many companies often fall below the rates of other departments. This was confirmed at least in qualitative terms in interviews with many retailer headquarters executives. In most instances this inequity seems to exist because the deli department is a relatively recent addition to many supermarket companies and both employees and managers have less seniority, and thus are at the lower end of the pay scale. However this lower salary status is beginning to change as a result of the increasing prominence of the deli in many retailers' current merchandising and positioning strategies, and a recognition of the inherent complexities of managing more employees than any other food department. One deli headquarters executive summarized the expanded personnel responsibility of the store-level deli manager this way: "With supervisory responsibility for 37 people, my deli manager manages more people in the deli than I did as a store manager twenty years ago." It seems reasonable to expect the deli manager's salary will be brought

TABLE 4.1

Representative Deli Department Labor Productivity Figures: Six Superstores[a]

Stores	Labor Hours	Items Sold Per Labor Hour	Sales Per Labor Hour ($)
1	485	27	40.02
2	407	22	43.95
3	303	16	31.81
4	187	23	48.97
5	359	14	28.28
6	434	22	34.70
Average	363	21	37.96
Storewide Superstore Average	4669	70	88.00[b]

[a]Average weekly productivity figures derived from a representative 13 week period.
[b]Food Marketing Institute Speaks, 1986.

Source: Cornell Survey, 1985.

into line with other department managers in the near future. Such increases, however, are likely to be met with some resistance from headquarters management already faced with high deli labor expenses.

Shrinkage: "Shrinkage," the industry term encompassing all forms of sales lost due to product deterioration, clerical and cashier errors or theft, is a key cost issue in a highly perishable department such as the delicatessen. The percent of sales represented by deli product deterioration, for example, is often estimated to be the highest in the store. Data from this survey indicate an average store-level deli shrink/loss factor of 5.1 percent of sales, or approximately $17,000 in lost sales per year for the average deli department. For a chain organization with, for example, 50 stores, this represents approximately $850,000 in real costs each year. The range around this average was considerable, however, from .5 percent to 10 percent of sales. This

average deli loss is all the more striking when compared with the average "shrinkage" of approximately .6 percent for the entire store (FMI, 1984).

Shrinkage and loss figures for in-store delis vary according to a number of factors. First, the variety of products carried has a direct influence on loss. Executives report adding considerably to the variety in deli offerings during recent years: although no firm figures are available for past years, in 1984-85, the average number of deli products for the sample of companies in this study was 293. Moreover, perishable items such as salads and hot foods, for example, have significantly higher shrinkage levels than do meats and cheeses, and even baked goods and desserts. Yet salads and hot foods are two of the most rapidly expanding categories of the deli. Thus continuing to add these more highly perishable items to meet apparent growing consumer demand, while attempting, at the same time, to meet the requisite of reduced losses represents a significant challenge to today's deli industry.

Other operational factors in the deli may also influence the extent of shrink/loss. Ordering, for example, is a exacting task. Sufficient product must be available to meet all potential sales demand yet without building excess inventories of highly perishable products, which ultimately lead to further losses.

Moreover, whether certain foods (such as entrees and salads) are prepared in-store, in a central commissary or by an outside vendor has a major influence on losses. All three methods are currently employed by different firm types. Some deli executives observed that a greater opportunity for waste and loss exists when preparation is performed at store level. They point out that losses occur from (1) the preparation of small batches, (2) the use of part-time employees who tend not to be as experienced or efficient as full-time staff and (3) equipment that is often not optimally utilized. These companies state that central commissary preparation or the purchasing of products from an outside manufacturer permits at the same time a more consistent product and also substantially reduces shrinkage and loss at store level. Preparation of foods in bulk form at one central location often provides more efficient manufacturing. This is essentially an "economies of size" argument. Several deli executives pointed also to the superior headquarters' control that results from a centralized system of deli product preparation and packaging.

Contrary to the above position, however, other deli executives defend in-store preparation since it allows them to offer the freshest product available. Furthermore, in-store preparation generally provides the opportunity to make better use of otherwise wasted items such as meat and cheese ends, surplus barbecued ribs, and day old breads as ingredients in other deli

prepared foods. Thus, according to this second operational philosophy, in-store preparation may not only assist in combating losses in the deli department, but may also help to reduce losses in other departments such as bakery and produce. Finally, several advocates of in-store preparation pointed to the additional merchandising creativity that this latter approach allows.

As a result of the considerable magnitude of shrinkage costs, deli training programs frequently include a host of topics with the objective of reducing in-store losses: for example, steps to ensure preslicing only the proper amounts of meat and cheese, techniques to slice products for maximum usage, temperatures at which to maintain coolers, exact proportions to use in preparing salads and hot foods, and techniques to keep foods warm and ready for consumer purchase.

Additional Productivity Measures: One major retail company included in this study provided deli department productivity figures for nine of its conventional supermarkets (averaging approximately 28,000 square feet) and six superstores (all between 40,000 square feet and 56,000 square feet). These measures are believed to be fairly representative of all chain delis. Thus, information on sales, item movement and average item value for the nine conventional supermarket deli departments in an average, non-holiday week is contained in Table 4.2. The average weekly sales for these nine deli departments is $9,087, or approximately 3.1 percent of the average weekly store sales. The average number of items sold per week in these nine delis is 5,067 yet the average value of each of these items is $1.79, approximately 35 percent greater than the storewide average (Table 4.2).

Table 4.3 provides the same indices for six of the firm's representative superstore deli departments. The average weekly deli sales for these six stores is $13,470, or is approximately 48 percent greater than for the conventional store's average, but still representing approximately the same percent of average total store sales (3.2 percent). On average, the six superstore delis sell 7,522 items per week, or 48 percent more transactions than the conventional store delis. The average retail price per item in the superstore delis is $1.90 or six percent higher than the average price in the conventional store delis. However this average price per item is 50 percent higher than the average price for items sold in the entire supermarket. In both conventional and superstore formats high cost and margin structure seems to be reflected in higher product prices.

Finally, although labor has been shown to be the largest single cost component in the deli, equipment costs are also high, and rapidly increasing. In 1978, for example, average investment requirements for deli equipment were approximately $45,185 but by 1986 the average costs had risen to $97,241 as a result primarily of sophisticated deli equipment, in greater numbers, to accomodate today's larger deli (Progressive Grocer, September 1986).

TABLE 4.2

Representative Deli Department Productivity Figures: Nine Conventional Supermarkets[a]

Stores	Sales ($)	Sales (%)[b]	Items Sold	Average Item Value ($)
1	7,217	3.1	4,331	1.67
2	8,909	3.2	5,054	1.76
3	10,798	3.2	5,920	1.82
4	7,919	2.9	4,566	1.73
5	12,624	3.5	6,380	1.98
6	10,156	3.5	5,611	1.81
7	5,256	2.8	2,841	1.85
8	7,493	3.0	4,500	1.67
9	11,413	3.0	6,400	1.78
Average	9,087	3.1	5,067	1.79
Conventional Storewide Store Average	288,248	---	219,051	1.32

[a]Figures reported for a representative one-week period.
[b]Percent of total store sales.

Source: Cornell Survey, 1985.

Pricing Practices

Pricing policies and practices for deli products, including establishing gross margins, is usually the responsibility of the director of deli operations, sometimes in collaboration with the deli buyer/merchandiser, at the supermarket headquarters. Occasional exceptions exist to this rule, however; for example, when price adjustments are made for day-old products or in-store specials by the deli manager at store-level. The deli buyer/merchandiser also selects weekly advertised items and establishes the feature price for these items. This study, however, points to a fundamental difference in how prices and advertised items are determined in the deli relative to other departments in the store. Most deli executives reported "variety" and "quality" as

TABLE 4.3

Representative Deli Department Productivity Figures: Six Superstores[a]

Stores	Sales ($)	Sales (%)[b]	Items Sold	Average Item Value ($)
1	19,299	3.5	12,806	1.53
2	17,705	3.4	8,710	2.09
3	9,594	2.8	4,729	2.03
4	9,138	3.5	4,316	2.14
5	10,130	2.8	5,102	2.00
6	14,958	3.4	9,468	1.62
Average	13,470	3.2	7,522	1.90
Superstore Storewide Average	410,918	---	325,370	1.26

[a]Average weekly productivity figures derived from a representative 13 week period.
[b]Percent of total store sales.

Source: Cornell Survey, 1985.

the intended emphases in their weekly deli ads, while "price" tends to be the dominant criterion used to attract shoppers to the grocery and most other departments. Virtually all deli executives interviewed in this study agreed that "low price" tends not to be as important -- especially in advertisements -- in the deli as it is in other parts of the store. In light of consumer interviews for this study, this is apparently a wise pricing strategy. Consumer attitudes toward deli prices in this study (Table 3.5, Section III) tend to confirm that, for them, deli prices are, in fact, not as important as quality and cleanliness.

In general, consumers perceive prices to be higher in the deli than in the prepackaged departments (Table 3.9). This perception can at least partly be explained by the accompanying perception that deli products are higher in quality than prepackaged counterparts. A large majority (approximately 80 percent) of consumers interviewed reported that deli product quality is superior to the quality of products typically found in self

service cases. Moreover, consumers apparently reason that the additional service available in the deli must cost more.

However, though consumers generally perceive prices to be higher in the deli, data collected for this study indicate that consumers are not strongly motivated by price in their deli purchase decisions. For example, "quality of the product" was the most frequent response given by consumers regarding the factor most important in their decision to purchase items from the deli (Table 3.5). When shoppers who had purchased boiled ham from the deli during the last month (50 percent of all deli shoppers) were asked to estimate its price, only 26 percent were able to do so within 10 percent of the actual retail price.

Thus in order to more closely examine price differentials between departments to determine if prices are actually higher in the deli, this study compared prices of selected meats and cheeses in the deli with comparable brands or quality in the prepackaged self service meat and cheese cases. Prices were collected from 20 different companies representing 26 supermarkets. Results demonstrate that deli prices were not universally higher. In fact, of the three common meat items included in the survey, (boiled ham, beef bologna and turkey breast), boiled ham from the deli was priced lower than its prepackaged counterparts in 78 percent of the comparisons (Table 4.4). As the single largest selling item in most delis, however, it is probable that boiled ham in the deli is on sale at specially reduced prices more often than its counterpart on the "pegboard". Turkey breast prices were lower in 42 percent of the delis, and beef bologna was priced lower than prepackaged beef bologna in 15 percent of the stores (Table 4.4). When cheese items sold in both deli and the self service dairy cases were compared, deli prices were found to be lower than prepackaged cheese prices approximately 30 percent of the time (Table 4.4). These data are in sharp contrast to the strong "price perception" of consumers, and often deli executives, that meat and cheese prices are <u>always</u> higher in the deli.

<u>Gross Margins:</u> Additionally, there was generally a strong perception among deli managers and staff that deli products were higher in price than comparable items in the self service meat or dairy case. Although most deli employees interviewed did not know specific prices in the self service department, many apparently assumed that deli products were higher priced. It is likely that their perception of higher prices in the deli was strongly influenced by the recognized differential in gross margin between deli products and self service meat and cheese items. The service orientation of the deli department, the bulk purchase of its products from suppliers, and the perishable nature of these products often lead to higher gross margins in the deli compared to margins in other departments in the supermarket. Table 4.5 lists average gross margins for five general supermarket product categories. Table 4.6 shows a breakdown, by product category, of the average gross margins in the deli.

TABLE 4.4

Price Comparison of Cheese and Meat Items Sold in Both the Deli and Self Service (Prepackaged) Departments

	Deli Price Highest	Prepackaged Price Highest	Total
		- - Percent - -	
Meats			
Boiled Ham	22	78	100
Beef Bologna	85	15	100
Turkey Breast	58	42	100
Cheeses			
American	70	30	100
Swiss	78	22	100
Mozzarella	65	35	100
Provolone	53	47	100
Muenster	65	35	100

Source: Cornell Survey, 1985.

TABLE 4.5

Average Gross Margins for Five Supermarket Departments

	Percent
Dry Groceries (Non-Food)	18.6
Dry Groceries (Food)	22.0
Health and Beauty Aids	26.5
Perishables[a]	26.3
General Merchandise	34.3

[a]Includes Bakery, Dairy, Deli, Frozen Foods, Produce, Meat and Fish.

Source: Supermarket Business, September 1986.

TABLE 4.6

Average Gross Margins by Product Category
for a Typical Deli Department

	Percent
Meats and Poultry	46
Cheeses	46
Hot Foods	53
Salads	48
Desserts	47
Department Average	48

Source: Cornell Survey, 1985.

Table 4.6 shows that the average deli department gross margin for firms in this study is 48 percent. As mentioned earlier, the sample for this study was drawn primarily from the larger supermarket chains throughout the U.S. Another recent study, in which the sample included smaller chains and independent stores, reported a deli department gross margin of 42.5 percent. This latter study also reported an increase in the deli gross margin by approximately 14 percent from the average of 36.9 percent in 1978 (Progressive Grocer, September 1986). It is probable that the lower margins reported in this latter study result from the lack of an integrated wholesale operation in many of these smaller chains and independents. Hence, many of these lower margins are, effectively, retail margins only. Finally, although little substantive research has been conducted on delicatessen net margins -- that is, net profits -- this same report estimates that net profitability of delis has actually declined modestly from 11.4 percent in 1978 to 10.7 percent in 1986.

Because the gross margin is almost always higher in the deli department than in the self service cases (approximately 28 percent), a higher price perception is apparently often established. However, deli management may overlook that the supplier cost of the bulk product for the deli is generally lower than the cost of individually packaged items of similar weight and quality in the self service case. Therefore, although deli product gross margins are generally higher than for products from the self service cases in order to cover the greater service and

shrinkage components inherent in the deli, the lcwer initial product cost of deli items can result in retail deli prices that are lower than the comparable prepackaged items. That is, although deli gross margins may be higher, the ultimate retail price may be similar, or in fact, lower than the similar prepackaged item.

Table 4.7 presents a realistic, though hypothetical, example of this phenomenon. Although the gross margin is substantially higher for the deli product than it is for the prepackaged equivalent (65 percent versus 45 percent) the actual retail price for the deli product ($1.49) is lower than for the prepackaged product ($1.59) due to the lower initial cost of the deli item.

TABLE 4.7

Hypothetical Pricing Structure for a Deli and Comparable Prepackaged Product

	Deli Product	Prepackaged Product
Product cost ($ per pound)	.84	1.14
Retail Price ($ per pound)	1.49	1.59
Gross margin ($ per pound)	.65	.45
Gross margin (percent)	44	28

Source: Cornell Survey, 1985.

SECTION V

STANDARD PROCUREMENT PRACTICES

Gaining access to today's fiercely competitive supermarket shelf space is a major challenge for suppliers of all food and nonfood products, including deli items. Hence knowledge of supermarket buyers' procurement systems and buying criteria are critical factors required for successful marketing efforts targeted at the deli.

Procurement practices in different departments in a supermarket vary greatly. The expanding variety and perishable nature of products in the deli department dictate a carefully planned and executed system. This section examines the standard product procurement procedures and various distribution alternatives that characterize supermarket delicatessen departments.

Product procurement in the deli can be disaggregated into a number of levels. Overall procurement responsibility in the deli lies with the director of deli operations. Larger retail firms, however, also employ deli buyers whose separate charge it is to perform the specific buying functions. In addition, certain local products are sometimes purchased by the store level deli manager. Generally, the most complex part of the overall process of product procurement are the initial steps involved in evaluating new products.

New Product Procurement

In the majority of retail companies, approval of all new products must first be given by the director of deli operations. In many cases a deli buyer or an assistant to the director of deli operations handles the initial screening of new products. One supermarket company, for example, assigns one person the responsibility for screening all new products for both the deli and meat departments. Initially selected products are then presented to the head of the department for final approval. Finally, store level deli managers generally make ordering decisions for their individual stores based on the list of available products authorized by the headquarters deli director.

During or immediately following the initial new product presentation by a deli vendor, many retail companies report that a number of employees taste and critique the product before a final decision is made. Certain buyers use a variety of other evaluation techniques. One deli executive stated that he would not put a product in the deli that he wouldn't eat himself, while another executive indicated that new deli products are stored in a portable refrigerator in his office to simulate how they are likely to behave once the consumer purchases the product.

A variety of characteristics were cited as important factors considered by deli executives when selecting new products. Unique, or novel, products that meet an unfulfilled need lead the list. Deli departments attempt to differentiate themselves from competing operations, regardless of the competing format -- restaurants, fast food firms, other supermarkets and, of course, other delis. Hence, deli buyers seek products that are new and different, or that will entice customers to shop at their deli and store rather than the competitor's.

Product quality was also cited by most executives as a primary concern when considering additions to the current product line. Deli buyers indicated that quality has increased in importance in evaluating new products as consumers continue to express preferences, and are willing to pay for, higher quality foods. Other primary concerns in evaluating new products include sales potential, retail price, how well the product fits into the overall product line and, ultimately, customer acceptance (Table 5.1). A few executives also stressed profit margins, advertising and promotional support, and asthetic value of packaging as being important characteristics in new products, but these were clearly viewed as less critical in the overall evaluation.

A number of factors are considered when preparing to introduce a new product into stores. The following step by step process exemplifies some of the decisions necessary for a new product introduction. An obvious, but perhaps most critical first step, is for the supplier to meet the various new product criteria above established by supermarket deli buyers. Unlike virtually all other new grocery product introductions, very few new deli products are introduced with large amounts of consumer-directed promotional activity. Consumer franchises have not, in general, been established for most deli products (brand development in the deli is examined in Section VI). Next, once authorization is given to introduce a new product, the director, often with the assistance of the deli merchandisers, decides on the exact display location of the product in the deli. At this time decisions are also generally made on how to promote the product to attract customers.

When considering a new item introduction, a regular retail price and gross margin are set. The product may be introduced at this "regular" retail price or at a specially reduced introductory price. Introduction at a reduced price generally depends on whether the manufacturer wishes to offer a special allowance, either in reduced wholesale price, free goods or other promotional allowances to the retailer. One standard practice is to introduce the new product on a trial basis in selected stores only. If the intent is to eventually offer the product in all stores a test is often conducted in different delis in neighborhoods with various demographics to determine the level of acceptance in each before expanding the product distribution to all stores.

TABLE 5.1

Key Factors Considered in Evaluating New Deli Products, in Order of Approximate Importance

Factor	Approximate Rating
Unique product	1
Quality of product	2
Sales potential	3
Retail price	4
Compatibility with product line	5
Customer acceptance	6
Profit margins[a]	7
Advertising and promotional support	7
Asthetic value of packaging	7
Distributor's reputation	7
Healthful foods	7
Long range market program	7

[a]The remaining factors were weighted approximately equally.

Source: Cornell Survey, 1985.

Finally, the newly introduced product is monitored closely for thirty to ninety days and its performance is evaluated, generally in terms of sales volume. If the product is introduced in all stores and performs according to sales expectations, it is retained. If the product is initially introduced in a limited number of stores, an evaluation is made to determine whether the product is successful enough to expand to other outlets. If finally accepted, the product is added to the authorized list of the deli buyer and distributor. Occasionally, at this point, another thirty to ninety day trial period is used to further assess whether the product has adequate potential to warrant continued or perhaps expanded shelf space.

Distribution Systems

More than any other department in the supermarket, delis make extensive use of external firms that attempt to facilitate the transactions within deli distribution channels: distributors. Distributors (see Figure 2.1) serve the important inventory and ordering function and act as the liaison between the food supplier and the retailer. Retailers are thus relieved of the necessity of maintaining large, costly buying staffs and absorbing warehousing expenses since specialized deli distributors perform these tasks. Rather than transact business individually with as many as 100-200 different suppliers, many retailers simply place orders through 1 or 2 distributors. Distributors also often either prepare or supervise the preparation of local salads, hot foods and entrees for direct store delivery (DSD).

Although, in general, deli executives expressed satisfaction with the performance of distributors, many acknowledged that room for improvement existed. As deli advertising and promotion grow more important (see Section VI), for example, direct communication between retailer and supplier, without another market intermediary, also becomes more critical. Further, as deli volume expands, the economics of warehousing and transportation require reexamination. Many deli executives stated that performing these functions internally within the wholesale-retail organization would become increasingly feasible if product volume continues to increase as projected.

Currently, a major product procurement decision in the delicatessen involves the distribution system choice between warehousing and DSD. Among retailers owning a warehouse, judgements are mixed regarding the optimal volume and product mix of deli products that should be handled through the warehouse rather than being delivered directly to stores. Thirteen of the 31 companies interviewed for this study indicated the distribution channels through which deli products pass on route to stores: warehouse and DSD. Seven of those (54 percent) indicated a greater percent of their deli products pass through the warehouse than directly to stores (Table 5.2). The percent of their deli products that move through a warehouse for these companies ranged from 60 to 95 percent of total deli product volume, with an average of 81 percent. Two of these companies indicated they soon intend to handle all deli purchases through their own warehouses. Among the benefits reported by these companies from handling most or all products through the warehouse were the substantial reductions expected in (1) vendor thefts, (2) high receiving costs, (3) paper work and (4) overall distribution costs.

A majority of the companies indicated that primarily high volume items were inventoried in their own warehouse. These include such items as roast beef, hams, pastrami, turkey breast,

TABLE 5.2

Deli Product Distribution: Companies Using Own Warehousing and Direct Store Delivery

	Percent
More through own warehouse	54
More through DSD	38
Equal through each	8
	100

Source: Cornell Survey, 1985.

bologna, salami and some cheeses. This list varies depending on region of the country and specific market. These high volume warehoused items also tend to be products that are not as highly perishable as many other foods found in the deli (eg, salads). Thus they can be kept in the warehouse for extended periods of time without risking serious loss of quality and freshness.

Five of the 13 companies (38 percent) reporting these data receive a greater percentage of their deli products through DSD systems (Table 5.2). The percentages ranged from 70 percent to 100 percent of their total deli products. One of these companies indicated it was continually trying to handle more product by DSD. The average percentage of products delivered directly for these five firms was 84 percent. Products handled by DSD systems generally included the more highly perishable deli products, such as many cheeses (imported as well as some domestic), local ethnic foods (Kosher, Oriental, Italian and German foods), specialties (bagels, smoked fish, cookies) and many salads, especially gourmet varieties.

Product Preparation

The decision whether to prepare deli products in the store rather than in a central commissary or kitchen is a critical one for deli operations. Approximately 37 percent of the food retailers interviewed prepare at least some deli products in their own central commissaries (Table 5.3). A variety of products are typically prepared in this facility; although the most common items are salads, other products include hot foods, soups, pizzas, vegetables for party trays, frozen doughs and meat products including boiled ham, turkey breast, roast beef, pastrami and ribs. Slicing and wrapping cheeses and meats are also functions often performed at a central wholesale-retail commissary.

TABLE 5.3

Central Commissary Versus In-Store Deli Product Preparation[a]

	Percent[b]
Companies using commissary	37
Companies preparing some product in-store	43
No commissary or in-store preparation	30

[a]For firms that offer prepared deli products.
[b]Percentages do not total 100 because some companies surveyed do not prepare any of their own deli products, while others prepare deli products in a commissary and in-store.

Source: Cornell Survey, 1985.

The primary argument for preparing products at a central commissary rather than in the store is product consistency; the cost savings, although clearly important, appear to play only a minor role in some companies. Deli executives often stated that bulk preparation of certain products generally allows greater consistency in quality of both product and packages, and perhaps more efficient manufacturing (economies of size). Some also stated that central preparation facilities encourage greater innovation and diversification in product preparation. One executive noted that performing the time consuming product preparation in a central commissary allows more time to experiment with unique ideas such as new product and recipe development or sales and merchandising techniques in the stores.

Nearly half (43 percent) of the companies interviewed prepare some of their deli product offerings in the store (Table 5.3). Hot foods are the most common category prepared in this way. Other store-prepared products generally include salads, desserts, pizzas and party trays. Executives who advocate in-store preparation of deli products listed quality and freshness as their primary motives. One deli executive stated that in-store preparation is more profitable than central commissary or manufacturer prepared products since, in addition to allowing higher quality and fresher product, in-store preparation provides opportunities to use meat and cheese ends, surplus chicken, day old bread and portions of off-grade produce items as ingredients in other deli prepared foods. He was unable to provide estimates of approximate cost savings, however.

Supplier Relationships

The supermarket delis included in this study carry a wide variety of products. Major product categories include meats and poultry, cheeses, salads, hot entrees and desserts (Table 2.7). The number of products carried in these delis ranged from 78 to 1500, with an average of 293. Since many of these items come from multiproduct firms supplying a broad line of deli products, retailers reported using an average of 50 deli suppliers. The range, however, was from 10 to over 200.

Because the deli is a relatively new supermarket department, until recent years there have been few strictly "deli" department suppliers. In the past, delis were typically serviced by meat department vendors or other retail distributors. The deli has been supplied by three main meat suppliers, each, however, only maintaining approximately a three percent share of the total market (Prepared Foods, Summer 1986). Today, however, increasing numbers of food companies, especially foodservice organizations, have become much more active in supplying the deli. One deli executive indicated that 90 percent of his deli products are supplied by foodservice supply firms or divisions. This often refers to the foodservice sales/marketing division, rather than the retail sales division, of a major branded food manufacturer.

Although many foodservice suppliers report recognizing that supplying a supermarket deli requires different procedures than supplying strictly a foodservice operation, many retail deli executives point to certain problems created by the foodservice method of sales and procurement. The size, actual operation, and needs of the two industries -- foodservice and retail food store -- are generally very different. Deli executives indicated that many foodservice suppliers had a difficult time understanding supermarket retailing. The "retail merchandising concept" is alien to what often appears to be a "cost-per-serving" mentality. The result is that sales representatives may be insensitive to certain retail needs, impractical with selling suggestions and may not tailor promotional or marketing programs toward retailing. Increasingly, however, foodservice suppliers are reorienting their operations to meet the needs of their retail deli customers. Many foodservice organizations, for example, have recently established separate deli departments to handle deli accounts because of the problems discussed above.

In addition to the criteria listed above for new products, deli executives also pointed to other requirements of deli suppliers. The most common attributes sought included support for sampling, demonstrations, promotions, point-of-purchase material and cooperative advertising. In addition, consumer education was mentioned as a very important service, particularly since the deli is a relatively new department in most parts of the country and historically deli vendors have not disseminated much consumer directed promotion.

Other important characteristics deli executives often require of suppliers include a reputation for consistent quality, delivery and service. Many buyers indicated a preference for suppliers with a full line of products. Essentially, the more suppliers used, the higher the transactions costs. That is, in general, more suppliers means greater time and expense needed in working with them. This general buyer preference ignores, of course, beneficial effects that the greater number of suppliers may have on product variety or price competition.

There were also a number of deli executives who indicated they sought help with employee training from their suppliers. When new products are added to the product line, employees must be educated on the product details so they in turn can assist consumers. Consequently, many suppliers now conduct regular training programs for their customer accounts in order to keep employees updated on the latest changes in products, services and equipment.

Cost Shifts

Recent food industry research has documented a series of shifts of costs and risk, generally backward, in the vertical food distribution system (Hamm, 1981; McLaughlin, 1983). Specifically, many functions and their associated costs are shifting out of retail stores toward manufacturers and producers. The functions, in general, must still be performed, but many of them may be able to be performed elsewhere in the distribution channels at lower costs. This phenomenon is a naturally occurring change that often takes advantage of economies of size, technological change and lower labor costs. The result of this activity can be a more efficient and lower cost total food and deli distribution system.

The majority of deli retailers indicated they now expect more services from suppliers relative to historical standards. Suppliers, responding to these new demands, increasingly provide more services than in the past (Table 5.4). Deli executives report a substantial increase, for example, in promotions, samples and demonstrations offered by today's deli suppliers. Vendors also provide more advertising allowances and educational materials directed, for the first time, at consumers. One retail executive indicated that he now looks for more complete and finished products from suppliers so they are fundamentally more convenient. This saves the retailer costly labor hours in handling and preparation time.

In the above way the deli industry may be following trends observed first in other parts of the food system. Specifically, in recent years the conventional wisdom among many food industry observers is that in most parts of the supermarket distribution system, control is shifting to the retailer. Retailers demand

TABLE 5.4

Selected Examples of Functions and Costs Shifting Backward in the Deli Distribution System

1. The presence of a greater number of commercial salad makers external to the retail system has enabled retailers to reduce the amount of labor required for product preparation in the back room.

2. New retailer and consumer demands for product consistency is now increasingly being met with increased commitment by suppliers.

3. Suppliers are increasingly adding value to products to minimize work for retailers (eg, precooking, preslicing, case-ready packaging).

4. To help alleviate inventory costs, certain retailers have increased the use of direct store delivery of products.

5. In recent years the number of manufacturer-sponsored product samplings, demonstrations and other promotions has increased significantly.

6. There is greater development of point-of-purchase materials by manufacturers and trade associations.

7. Manufacturers are providing more effective packaging for deli products, including display containers and labels.

8. Deli operators are demanding more informative product labelling (ingredient information, storage requirements and recipe ideas) from manufacturers both for consumers and for deli employees.

9. Manufacturers are increasingly providing training workshops and seminars to retail deli employees.

10. As larger and more technologically advanced equipment for product preparation becomes common and required, product preparation is increasingly being performed by commercial manufacturers.

Source: Cornell Survey, 1985.

and get more from suppliers. Whereas, for example, food manufacturers formerly possessed the majority of market information needed to operate, now retailers, as a result of Universal Product Code scanning and related technologies, have higher

quality information. In some cases, they sell it back to manufacturers. This phenomenon appears to shift greater control and bargaining power to retail firms in many cases. Therefore, in this sense, the deli procurement and distribution systems are becoming more similar to those in the rest of the supermarket industry where suppliers for several years have been absorbing more of what historically had been considered retailer costs.

While discussing the expectations of the supplier from the supermarket deli, one retail executive suggested three general reasons for retailers requiring that more services be performed by suppliers rather than in stores. The most important of these involves labor. Labor is the largest single expense in the deli. Deli operators constantly strive to minimize labor costs. By having more products prepared and services supplied by external vendors, fewer retail level functions must be performed. Thus less retail labor is required. To the extent that suppliers can perform the functions more efficiently or at lower cost, the entire deli distribution system benefits. This leaves retail deli employees available to perform other tasks, such as merchandising and selling, to expand demand. Such activity can not be performed outside the retail deli department. Greater product and packaging consistency can often also result when suppliers take responsibility for preparing products in larger batches and generally with more specialized equipment.

In addition to the substantial labor savings potential when certain of these services are performed by suppliers, economies of size can also often be realized by manufacturers. The preparation of products in bulk form can provide systemwide cost savings not generally achieveable with in-store preparation.

Finally, operations can often be streamlined with food preparation by initial suppliers. Better discipline and control in meeting all government regulations required for proper product preparation, labelling and sanitation can generally be obtained by manufacturers. Retailers, in a very real sense, shift the burden of product liability, and the accompanying costs, backward in the system to suppliers. The key issue underlying these functional and cost shifts, of course, from a supplier perspective, is how much additional cost can be taken on (in the form of additional service levels, etc.) before prices need be raised. Obviously, additional functions, and their attendant costs, can only be undertaken if the resulting additional revenues are at least offsetting. The net systemwide result of these cost shifts, however, may well be better coordination and performance for the entire deli system and almost certainly lower prices to consumers.

SECTION VI

ADVERTISING, PROMOTION AND MERCHANDISING

As deli sales and profitability grow in importance in today's supermarket, so naturally does the attention devoted to deli advertising, promotion and merchandising. Executives interviewed for this study were unanimous in the consensus that the level of advertising for the deli has increased substantially from levels of three to five years ago. Indeed, in certain companies, specialty departments like the deli were virtually nonexistent even that recently. Today, however, deli products are an integral component of the weekly store advertising program and are beginning to appear with greater frequency, occasionally even on the front page of these ads.

Deli Advertising Practices

The most common media forms for deli advertising are the "best day" food ads in the local newspapers and fliers distributed by the store/chain each week. In certain chains radio and television exposure too has become commonplace for deli advertising. This increased activity is primarily the result of top management perception that the deli has become a major draw for their stores. Use of circulars, point-of-purchase materials and television have all grown since 1982 (Table 6.1).

TABLE 6.1

Advertising and Promotion in the Deli: 1982-1985[a]

	1982	1983	1984	1985
	Percent of All Retailers			
Newspapers/Fliers	88	85	81	85
Circulars	52	70	71	69
Point-of-Purchase	67	67	67	83
Radio	44	25	19	23
Television	13	18	14	19

[a]Based on mail responses by industry executives responsible for over 10,000 supermarkets.

Source: Supermarket Business, April 1986.

Many executives reported that the deli establishes an "image" for their whole company whose importance may far surpass the contribution of deli sales alone. Because it fulfills many of the needs associated with the demographics and lifestyles of today's consumers, the deli is increasingly placed in a prominent position in the store in an effort to maximize the exposure to shoppers. In this regard, television advertising is thought by many industry executives to be particularly effective in projecting the institutional message, the personalized service and high quality image of the deli department.

Though most executives agreed that the deli now constitutes an indispensable component in store/chain advertising, they indicated a considerable range of deli products typically included in weekly newspaper ad programs. In general, most companies feature a minimum of two to three major "headline" deli items in their weekly ads. These key items are likely to be at specially reduced prices, although this is not always the case. However, as many as 15 to 20 deli items are included in the weekly advertisements of many retailers. Only two or three of these might have reduced prices. The others simply benefit from greater exposure. For many companies deli ads now average one quarter to one half of a page in the typical eight page advertising flier. It is no longer unusual, however, for full page deli ads to appear, generally featuring extensive product selection (Exhibit 6.1). Although unusually high, one company executive indicated the deli receives from 20-25 percent of the space in the store advertising program in a typical week. If, following most projections including those from executives in this study, the deli continues to increase in importance relative to other supermarket departments, it is probable that the deli will demand and receive greater space in stores' overall advertising programs. All executives expressed a need for increased advertising for the deli, and were optimistic about the prospects for receiving these increases in the future.

Pricing Advertised Products

Advertising has considerable influence on deli sales. Executives reported that advertising of deli products can be expected to increase product movement by two to three times its average normal volume. Significantly, this estimate was continually made, yet without reference to price. Implicit acknowledgement is apparently given to the rules-of-thumb that exist for deli feature pricing. In other words, when, say, deli bologna is placed on an advertised price, it is reduced in price from otherwise "normal" levels by an amount that is likely to generate an increase in product movement by two to three times. Over time, whatever advertised prices result in the required magnitude of sales increases become standardized deli pricing practices. It is in this manner that it is rational for execu-

EXHIBIT 6.1

Full Page Ad for a Typical Deli Department

tives to project sales increases without explicitly mentioning price -- the magnitude of the price reduction is simply understood. Deli executives reported that the gross margins of advertised products were generally reduced between 10 to 20 percentage points, from the department average of approximately 48 percent.

Wide variety was the most common theme when executives were asked to indicate the criteria typically used in deli advertising. They emphasized the importance of continually changing the deli products advertised in order that customers be exposed to the ever greater variety of products carried. Other companies have a standard group of products from which to select several products every week; that is, one choice each may be made from a number of preselected product categories: eg, hams, bolognas, turkeys or cheeses.

In addition to reduced-price deli advertisements, many companies also run "featured" products each week. These products are often different than those advertised in the major media. Featured products, unlike advertised products, are not reduced in price. They are generally "spotlighted" in the deli with special point-of-sale material designed to draw consumer attention. These products often also receive more attention from in-store deli personnel in terms of suggestive selling. Deli operators attempt to increase movement of these products by drawing greater shopper attention to the larger and often more creatively merchandised displays rather than by lowering prices. This may be a wise retailer strategy, since this study shows that consumers rate "price" relatively low among the criteria important to their deli purchases. It appears many retailers recognize that the predominance of low price specials is not likely to influence deli sales the way it historically has in most grocery departments.

Cooperative advertising between deli retailers and food suppliers has recently grown prominent in the deli, although it is still a far less common practice than in certain other supermarket departments such as grocery or frozen foods. Increasingly, deli manufacturers support newspaper advertising, as well as provide funding, product and personnel for in-store sampling and demonstrations. One deli executive stated that cooperative advertising funds are now in such great supply that retail food companies need to make more advertising space available in order to take better advantage of them.

Deli manufacturers are prompted to offer cooperative advertising funds to deli operators for a number of reasons. When a manufacturer's product is placed in an ad, it not only gets the media exposure critical for both store level deli personnel and consumer attention, but also generally benefits from increased in-store signage, greater display space and often

more prominent shelf position, as well as verbal communication and suggestive selling by deli employees behind the counter. These employees are encouraged each week to support the company ad program, especially the items that are "featured" but not "advertised" -- that is, especially those not reduced in price and margin. Thus a concerted effort on the part of deli employees is made to inform customers of feature and advertised items, thereby increasing the movement of these products (Exhibit 6.2).

Brand Recognition

The issue of brand recognition throughout the supermarket, including the deli, is a critical one for manufacturers, yet little is known regarding the level of brand recognition or importance in the deli. Therefore, consumers in this study were asked to indicate the importance they attached to brand names when purchasing products from the supermarket deli. Similarly, deli executives were asked to indicate -- following the mirror image interviewing technique -- the importance they felt their shoppers attached to brand names (Table 6.2).

There was considerable discrepancy between the responses of each group. Deli executives felt brand names in the deli were more important to consumers than consumers said they were. Ninety-seven percent of the executives interviewed felt brand

TABLE 6.2

Importance of Brand Names in the Deli

	Deli Consumers[a]	Deli Executives[b]
	- percent -	
Great	16	44
Little	17	53
None	67	3
	100	100

[a]Response to the question, "Evaluate the importance you place on knowing the specific brand name of a deli product you purchase."
[b]Response to the question, "How much importance do your customers place on knowing the specific brand name of deli products?"

Source: Cornell Survey, 1985.

EXHIBIT 6.2

Weekly Deli Merchandising Program
for a Representative Food Chain

PANTRY PRIDE STORES
MIAMI REGION

PREPARED FOOD #19
February 25, 1985

Russers Virginia Baked Ham is $2.99. I expect to see at least a two facing display in every Service Delicatessen case for this promotion.

At $4.29 per pound, Swift Butterball Turkey Breast is the best value in town. This product will be skinless and Swift Butterball Turkey Breast will be skinless from now on. Your shrink on this item should dramatically decrease.

Emmber's Shaved Roast Beef, Corned Beef or Pastrami is now in it's second week at $3.49. You should do an excellent job with this product in the ad. It should be backed by a presentation in every case. Let's sample this item this week. Shave some and put some toothpicks through the product for your customers to taste.

Louis Rich Turkey Bologna at $.99 per pound should really move this week. This should also have a two facing display in your department.

Swift All Meat or Beef Bologna at $1.49 is the lowest price in town. This should be your second sampling item this week. I suggest that you cut it into cubes approximately 3/8" and use flat toothpicks and put it in your 12" sampling tray with a dome. Put the description on a card and the retails so the customers know what it is.

Your cheese item for this week is Red Rind Muenster Cheese at $2.89. Muenster is a good moving cheese and it, too, should have two facings.

Your in-store features for this week are Wilson Genoa and Hard Salami at $3.19 per pound and Bar-B-Q Chickens at $1.49 per pound for those of you who have barbecue equipment.

Let's get behind this week's merchandising program and SELL SELL SELL.

names were at least of some importance to deli shoppers. Only three percent said they were not important. In stark contrast, however, 67 percent of consumers indicated brand names were not important when making deli purchases.

On a regional basis, three quarters (75 percent) of deli consumers from the North Central, South and West regions stated brand names were not important when shopping in the deli. The percent of deli consumers from these three regions giving brand names in the deli a "very important" rating ranged from 8 to only 16 percent. In the Northeast region, however, only 56 percent indicated brand names were not important, while almost one-quarter (21 percent) of deli consumers stated brand names were very important in the deli. The more positive attitudes toward brands of deli consumers in the Northeast may be the result of the longer tradition of the deli industry in this region of the country. Brand recognition in the deli may be enhanced in the Northeast because manufacturers have been supplying these areas for a longer period of time and thus may have developed a certain brand franchise among consumers.

There may be several explanations for the discrepancy in views in Table 6.2. First, consumers today may simply always expect high quality, fresh products from the deli department irrespective of manufacturer brands. Therefore, they assume all products carried in the deli are reputable and high quality products regardless of the source of the product. Consumers thus tend to buy more "with their eyes and their palate" than by specific brand names.

Another explanation for lack of significance placed on brand names by consumers relates directly to their lack of recognition of the deli product manufacturers. This unfamiliarity stems primarily from three sources. First, of course, is simply the youth of the deli. The "newness" of this department, especially in certain areas of the country, may result in a large number of consumers who have not been deli shoppers for a long enough time to establish a specific brand preference. Second, consumers are much less familiar with deli brands than, say, grocery brands due to the much lower visibility of deli suppliers. For a variety of reasons deli vendors have not, in most cases, attempted to develop strong "consumer franchises" for their products (see Section V). Television and radio support, for example, has rarely been available.

Finally, manufacturer brand recognition is low with deli shoppers, in many cases, because many retailers prefer it this way. Despite certain benefits to deli product manufacturers in communicating more frequently with ultimate consumers, many retail deli executives stated that they prefer that manufacturer brands not dominate the deli department. A majority of retail deli executives acknowledged that they strive to differentiate

themselves from competitors principally by their perishables departments and, increasingly, the deli. They are thus reluctant to relinquish certain "control" of this department to manufacturer labels where, it is feared, delis in all supermarkets would soon look alike. At this point, the original impetus for the recent retailer development of the deli as a key "point of distraction" may be lost.

This scenario challenges some deli suppliers to expand their "franchises" with consumers through effective branding. Consumers have become increasingly brand loyal in many areas of the supermarket in recent years (Hamm and Handy, 1985). An opportunity thus exists for deli product manufacturers to provide additional information and attempt to develop brand loyalty in the deli, perhaps the fastest growing department in the supermarket. Such efforts may not, of course, for reasons stated above, always be met with unchallenged retailer approval. Furthermore, establishing a franchise with consumers generally requires both an extensive field force and a considerable advertising budget. Neither of these requisites is common to most deli suppliers.

Partly for these reasons, some deli suppliers have purposely avoided including a consumer brand strategy in their marketing programs. Rather, they report targeting the individual customer who matters the most: the supermarket deli buyer. Firms of this latter type apparently feel that -- given current resource constraints -- developing a consistent and quality image with the buyer is a wiser strategy in gaining assess to the highly competitive deli shelf space.

One executive suggested that the reason for less supplier-supported deli advertising relative to the advertising in many other food product categories is that most suppliers do not offer a full line of products for the deli. It is generally difficult to support serious advertising for only one or two items. The manufacturer's unit cost of advertising in the deli would be much higher than in many other departments where costs can frequently be spread over a larger number of products in a broad line offering. As deli growth continues, however, full line suppliers should play a far greater role in the deli industry (Exhibit 6.3).

Despite the barriers, however, brand recognition is increasingly being attempted by deli suppliers. Several major U.S. food manufacturers are currently active in developing brand franchises for new deli products. In other cases imported cheese advertising support, including limited branded promotions, in U.S. delis comes not from individual manufacturers, but from marketing boards set up to promote a country's products. These programs have been developed in a number of countries, including France, Germany and Denmark. Funds from manufacturers are generally pooled by these foreign marketing boards that in turn support advertising and special programs to promote their products.

EXHIBIT 6.3

Full Line Deli Product Supplier

ConAgra Deli Co. Products World's Fare Brand

Entrees
Fettucini Alfredo
Beef Stroganoff
Chicken Cacciatore
Beef and Broccoli
Seafood Newburg
Salisbury Steak with Gravy
Meat Lasagna
Stuffed Cabbage Roll
Braised Beef Steak
Macaroni and Cheese
Boneless BBQ Beef Short Ribs
Coq Au Vin
Spaghetti Sauce with Meatballs
Stuffed Peppers
Seafood Creole

Breaded Products
Hot 'N Spicy Chicken Nuggets
Cheddar Cheese Nuggets
Turkey Nuggets
Mozzarella Cheese Nuggets
Chicken Nuggets
Chicken and Cheddar Nuggets

Cooked Hams
Cooked Ham, water added
Flame Browned Cooked Ham
Chopped Ham, water added
Cooked Ham and Water Product

Dry and Semi-Dry Sausage
Hard Salami
Peperoni
Hickory Smoked Beef Summer Sausage
Genoa Salami
Sandwich Peperoni
Hickory Smoked Summer Sausage with Cheese
German Brand Sausage for Beer

Roast Beef and Beef Specialties
Cooked Corned Beef Round
Cooked Beef Roast, Medium Well
Pastrami Eye of Round
Cooked Beef Roast, Medium Rare
U.S.D.A. Choice Roast Beef

Bacon
Bacon in the Round
Hickory Smoked Picnic Bacon

Salads and Pasta
Chicken Salad
Tuna Salad
Pasta Verde with Butter Sauce
Egg Noodles with Chives and Butter Sauce
Linguini Noodles with Butter

Bologna and Sausage Specialties
Jumbo Bologna
Cotto Salami
Meat Bologna
Beef Bologna
Braunschweiger
Liver Cheese

Seafood
Cooked Shrimp
Breaded Cooked Butterfly Shrimp
Cooked Salad Shrimp
Breaded Cooked Shrimp Nuggets
Breaded Cooked Popcorn Shrimp

Smoked Sausage and Frankfurters
Rope Style Smoked Sausage
Link Style Smoked Sausage
Old Fashioned Frankfurter

Poultry
Oven Roasted Chicken Breast
Browned, Roasted Turkey Breast
Gourmet Smoked Turkey Breast
Skinless Turkey Breast

Loaves
Pickle Loaf
Olive Loaf
Pepper Loaf
Old Fashioned Loaf
Ham and Cheese Loaf
Honey Loaf

Cheese
American Processed Cheese
Sharp, Cheddar, Midget
Mozzarella
Shredded Mozarella
Muenster
Swiss Sandwich Cut
Baby Swiss
Longhorn Style Colby Cheese
Split Cheddar Longhorn
Mild Cheddar, Split Midget

Special Occasion Promotions

Special occasion promotions and merchandising play a critical role in the deli, perhaps more so than other supermarket departments. In addition to a regular advertising program in the deli, retailers generally undertake extensive merchandising activities on numerous holidays and special occasions throughout the year. Thanksgiving, Christmas and New Years are the three most popular holidays for running deli promotions. However, most delis also make special efforts to develop promotions around nearly all holidays and special events: Valentine's Day, George Washington's Birthday, Super Bowl Sunday, Lent, etc. When a national holiday or special event is not imminent, many companies conduct promotions like 'April in Paris' or 'Octoberfest.' Special decorations are often utilized and deli employees dress up in appropriate costumes on such occasions. Such promotions not only offer opportunities for featuring deli products, but enable deli personnel to cross merchandise deli items with products from other departments. Frequently storewide theme sales now center on the deli. These themes can tie in nearly all departments: wine from the liquor department, party favors, crackers, nuts etc. from dry grocery, rolls and bread from the bakery, fruits and vegetables from produce, and flowers from the floral department (Exhibit 6.4).

Cross merchandising has become increasingly common within the deli. Deli executives reported many of their most successful promotions in this category: for example, a free pound of potato salad or cole slaw with every $3.00 purchase of lunch meat during the summer. Further, they pointed out that cross merchandising in the deli results in incremental sales for many other departments in the supermarket as well. As today's shoppers increasingly seek new and creative uses for food products, cross merchandising deli products has proved highly successful for many deli operators.

Deli Sampling and Demonstrations

Food sampling and demonstrations are forms of in-store promotions that deli executives reported as two of the most valuable techniques in improving deli sales. This is true primarily since selling and merchandising emphasis in the deli is on freshness, quality, variety, and unique tastes. Furthermore these techniques allow the estimated 80 percent of shoppers who typically do not make deli purchases to try a new product without the commitment to purchase. In the majority of delis customers are allowed, often encouraged, to sample any item in the deli upon request. In addition, most operators constantly feature one or more products on deli counter sampling trays. Generally deli managers receive a sampling list and sample those products indicated for the given week (Exhibit 6.5). Many vendors provide

EXHIBIT 6.4

Storewide Theme Sale Advertisement

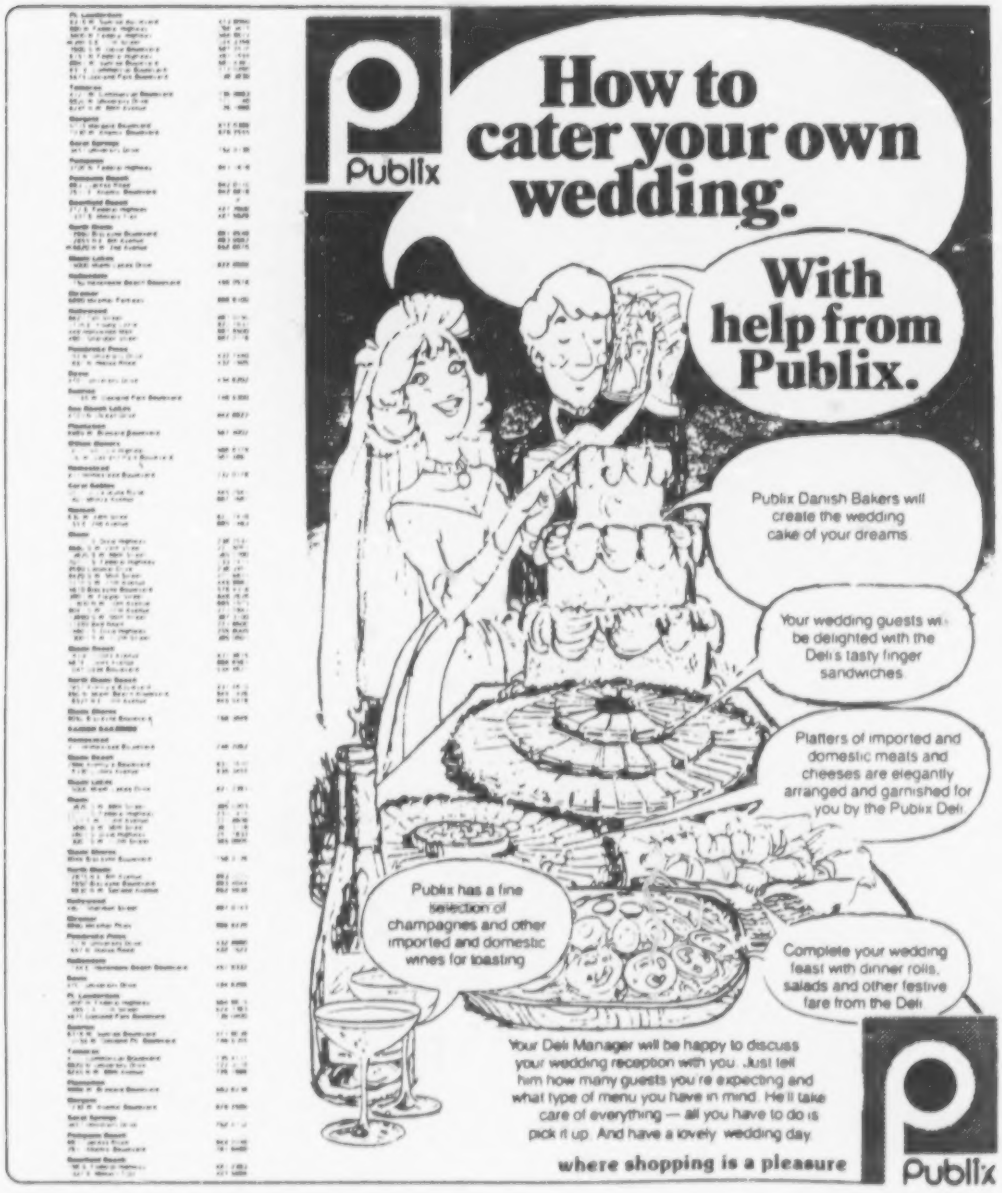

Publix
How to cater your own wedding.
With help from Publix.
Publix Danish Bakers will create the wedding cake of your dreams
Your wedding guests will be delighted with the Deli's tasty finger sandwiches
Platters of imported and domestic meats and cheeses are elegantly arranged and garnished for you by the Publix Deli
Publix has a fine selection of champagnes and other imported and domestic wines for toasting
Complete your wedding feast with dinner rolls, salads and other festive fare from the Deli
Your Deli Manager will be happy to discuss your wedding reception with you. Just tell him how many guests you're expecting and what type of menu you have in mind. He'll take care of everything — all you have to do is pick it up. And have a lovely wedding day.
where shopping is a pleasure
Publix

EXHIBIT 6.5

In-Store Sampling Program

FOOD SERVICE

ROAST BEEF SIGNS

The sign shop inadvertently sent $3.99 roast beef signs to all stores this week. This sign was for stores #43, 49, 79, and 174 only. All other stores disregard this sign.

SAMPLING

Each week, starting this week, we will list two items in the bulletin that are to be sampled the following week. These items will usually be ad items and have a sampling allowance.

The items that are to be sampled this week are as follows:

1. Charlie's Pride Extra Lean Pastrami
   Roll the product on frill picks and display on the counter in your sample domes.

2. Hormel Homeland Salami
   Roll and sample from sample dome.

Sample at least one item at a time, mark the dome with a cut out from a bag stuffer to identify and price the product.

In addition to these two items, keep a plate of our new cod fillets chunked on frill picks in the hot case ready to sample. Chicken salad is also featured this week, sample it right out of the case on small spoons..

SAMPLING - CONTINUED

For sampling to get you the extra sales you are after, all hands must be well informed about the product being sampled and they must be encouraging the customer to taste the product, they must be pointing out the qualities of the product, and the price advantage. It is the department managers duty to see that the sampling program is carried out every open hour of the week.

$AMPLING $ELLS

STOUFFERS

Next week each store will receive a package of static cling signs for the hot case from Stouffers. The signs do not say Stouffers, only a product picture, description, and a place for the price.

Use these signs the same way you use the yellow ad signs...at the top of the glass on your hot case. You can use them over and over as you feature different Stouffers items.

FEATURED ITEMS

The six items featured at the bottom of the bag stuffer at regular price must be carried by all stores during the ad period, it's the law! Warehouse orders on hot ham and A.M. bologna were light this week even though they are on the ad. Check your stock on these items now!

allowances available for this purpose. While waiting on customers, deli personnel are encouraged to offer samples of these products to stimulate additional sales. Of course, given the pressures of the day, these corporate policies are not always strictly implemented at store-level.

The deli is one of the most active areas in the store for food demonstrations. These generally involve setting up a 'station', generally in a high traffic area, where samples of products are prepared and offered. A demonstration differs from counter sampling in that it is staffed by an individual who is responsible solely for discussing the product, offering serving suggestions and answering other usage questions. Product manufacturers have become more involved in "demos" and often now sponsor some or all of the program, including product, point-of-purchase materials and personnel. In general, retailer reaction to sampling programs, especially those supplier supported, has been very positive.

Many companies in this study reported a policy of holding two to three demonstrations in a store each week. One company has hired an individual to run demonstrations on a full time basis. Three demonstrations are conducted per week in different stores on a rotating basis. One deli executive reported that his company often sells eight to ten times the normal amounts of product when it is offered in a demonstration situation. Demonstrations are generally conducted on weekends and during other heavy traffic periods.

One deli executive stated that sampling and demonstrations were the best methods in the short run for increasing product movement in the store. Several others commented that the opportunity to sample new or unfamiliar products before buying appears to give shoppers a feeling that the deli department, and supermarket in general, is concerned about shopper welfare. These extra services offered in the deli and the deli's ability to cater to specific customer needs are perhaps the most critical factor in the success of the food store deli.

Deli Couponing

Although many companies are now beginning to experiment with distributing coupons for the deli (Exhibit 6.6), the practice is not widespread, for several reasons. First, whereas manufacturers in other parts of the supermarket have increasingly employed coupons as part of their strategies to develop and reinforce brand loyalty with shoppers, deli product manufacturers, until quite recently, have generally not attempted to develop consumer franchises or brand recognition. Thus they saw little need to communicate directly with the shoppers via coupons or in any other way. Second, although retailers do develop their own

EXHIBIT 6.6

Retailer Deli Coupon

French-American Committee for The Statue Of Liberty
VONS
Service Deli
MOST STORES CLOSED EASTER SUNDAY
Easter Specials
PRICES EFFECTIVE MARCH 28 THRU APRIL 10, 1985
DOUX DE MONTAGNE
MILD AND MARVELOUS FROM THE PYRENEES
LB. 4.99 SAVE 1.00 LB.
SMOKED TURKEY BREAST
LONGMONT, SLICED TO ORDER
LB. 5.49 SAVE 1.50 LB.
HONEY CURED HAM
WILSON, SLICED TO ORDER
LB. 3.99 SAVE 1.00 LB.
WATERGATE SALAD
MADE FRESH DAILY IN THE DELI
LB. 2.29 SAVE .50 LB.
CHICKEN WON TONS
HOT, READY TO EAT
12 FOR 1.59 SAVE .81
DOMESTIC SWISS
SLICED TO ORDER
LB. 3.49 SAVE 1.20 LB.
AMERICAN CHEESE LB. 3.69
CARROT & RAISIN SALAD LB. 1.29
WILSON DUTCH LOAF LB. 3.39
DELICE DE FRANCE LB. 5.99
GALLO COTTO SALAMI LB. 3.69
BEEF STEW LB. 2.99
VONS SUPER COUPON
NEW! IMPROVED
NO. 847
ONE POUND BARBECUE BEANS
FREE
WITH $5.00 PURCHASE FROM THE SERVICE DELI
EFFECTIVE MARCH 28 THRU APRIL 10, 1985
COUPON APPLICABLE ONLY AT STORES WITH SERVICE DELI
VONS VONS VONS VONS VONS VONS VONS VONS VONS VONS VONS VONS VONS VONS VONS VONS VONS

coupons, the magnitude of such retail-generated coupons is negligible compared to the enormous number of supplier coupons (approximately 179.8 billion in 1985; A.C. Nielsen, 1986). Finally, as mentioned above, a considerable amount of evidence supports the contention that shoppers do not select the deli or products within the deli based on price or price reduction (eg, coupons). Thus retailers, in general, use other promotional devices in lieu of coupons.

Other Deli Promotions

There are many other forms of in-store deli advertising. Perhaps the most basic is point-of-purchase (p-o-p), or point-of-sales, material. Many manufacturers apparently feel that the value of p-o-p material as a merchandising tool in the deli is considerable and resultingly have developed a variety of informative and colorful posters, mobiles, brochures, etc. to aid retailers in selling their products. This is especially important in a department where impulse consumer purchases account for as much as 50 percent of sales (Exhibit 6.7). According to one study, more than two-thirds of all food chains use p-o-p material in their delis (see Table 6.1). The majority of suppliers provide p-o-p material upon retailer request.

However, primarily because the quality of these materials varies greatly, certain retailers prefer to develop their own in-store material. These latter type of retail companies often prefer to display promotional materials with the same design throughout the store. Other retail firms have specially coded in-store signs to convey product and usage information and, in general, to facilitate shopping. In one company, red tags are used to identify products on sale on a given day, while another food chain uses color-coded display cards to convey nutritional information regarding content of fat, cholesterol and salt. Certain deli operators print -- a few even hand paint -- their own signs to provide a personal touch. These signs are often still quite inexpensive, yet still provide a colorful, descriptive message. A rapidly growing promotional device used by retailers -- and often furnished by deli suppliers -- is translucent tape placed on the front of the deli case to frame the featured product, or family of products. This technique aids customers in quickly identifying the product while adding a certain style and color to the deli case.

During the course of discussion with deli executives around the country, a number of additional suggestions for promoting deli products were provided. Two companies interviewed have no regular advertising programs but use billboards situated throughout the city. These companies believe "word of mouth" is the best form of advertising. Another company uses the local telephone yellow pages to advertise its party platters (Exhibit

EXHIBIT 6.7

Manufacturer Offered P-O-P Support

WHEN IT COMES TO YOUR DELI,
RUSSER MEANS BUSINESS.
RUSSER
MEANS QUALITY
At Russer, we use only the finest ingredients in our products. Our hams are crafted from the most desirable muscles, meticulously trimmed and carefully hand-placed. No ground meat or extra water. Our bologna and loaves are made solely from fresh, lean pork and beef, seasoned with natural spices and baked to perfection in our smokehouses. You get pure quality all down the line. Your customers won't settle for less. And neither will we.
RUSSER
MEANS NEW PRODUCTS
Our Honey & Maple Cured Ham® is the newest addition to our product line. It's lean, tender, and cooked in its own natural juices. The distinctive old-world appearance enhances any deli presentation. And, there's Russer Lil' Salt® - the industry's most successful, fastest-growing line of low-sodium, low-calorie cold cuts. Lil' Salt is a line of eight premium quality cold cuts that taste great and answer your customers' growing concern for less salt and better nutrition.
RUSSER
MEANS P.O.S. SUPPORT
With impulse purchases accounting for 50% of all deli sales, you need all the visibility you can get. And nobody gives you more P.O.S. support than Russer. Colorful posters, mobiles, counter cards, aisletes, rail strips, recipe brochures - whatever it takes to build in-store traffic and stimulate sales.
RUSSER
MEANS BUSINESS
Call us today. We'll show you how Russer means more sales, more profits - more business for you!
Russer Foods
Russer Foods
RUSSER

6.8). It reasoned that if it were to offer catering services, exposure in the places where catering target audiences normally seek this service (eg, yellow pages) was necessary in order to effectively compete. Several retailers follow this advertising strategy for certain "fast foods", such as pizza and fried chicken. Others emphasize the use of strong suggestive selling, publicity from food editors, regular drawings for free products, "bag stuffers" and weekly mailers. Techniques employed to advertise and promote deli products are growing in number as more food retailers place greater image importance on the perishables areas, and the deli in particular. If interest and emphasis of the deli continues to grow as projected, more aggressive allocation of funds to support new advertising and promotional programs is likely to follow.

EXHIBIT 6.8

Yellow Page Deli Advertising

Caterers
SAVE
Wegmans Complete Self-Service Catering and Platter Service
SAVE
• No order too large for our Continental Deli Chefs
• A wide variety of fresh made exotic salads & specialty meats
• The home of the famous Virginia Ham
• Kosher Foods - Bagels n' Fixins (15 var.)
• Self service salad bars
• Freshly prepared HOT Foods - Party Sandwiches
• 27 Convenient Locations
• Free Colorful Party Brochure
Wegmans Food Mkts., Inc.
1500 Brooks Ave
To save time and money call: 328-2550 Ext. 6761
Save on Weddings - Home Parties - Business Gatherings - Picnics - Bar or Bat Mitzvahs
Caterers—(Cont'd)
DOUG POST HOME RESTRNT
PARTIES • WEDDINGS
BANQUETS • BUSINESS GROUPS
CLAMBAKES
ALL TYPES GATHERINGS
EDDIE'S CHICKEN COOP
WE CATER PARTIES & GROUPS
SPECIALIZING IN
• CHICKEN • RIBS • SHRIMP
• STEAK SANDWICHES • WINGS
HOME OF THE BOSS SAUCE
OPEN LATE
Mapledale
PARTY HOUSE
HAVE
SINCE 1964
YOUR NAME
IN LIGHTS
ROCHESTER & MONROE COUNTY'S
LARGEST PARTY HOUSE and BALLROOM
50 to 1500 PEOPLE
• WEDDING RECEPTIONS
• RETIREMENT PARTIES
• SEMINARS
• OFFICE PARTIES
• TRADE SHOWS
• LUNCHEON MTGS
• REUNIONS
FEATURING OUR NEWLY OPENED POTOMAC ROOM
436-2112
1930 MAPLE ST
• 7 PRIVATE DINING ROOMS
ROCHESTER
Anthony's
RESTAURANT & PARTY HOUSE
• WEDDINGS • BANQUETS • PARTIES
• SEMINARS • BUSINESS MEETINGS
• LUNCHEONS • CLAM BAKES • BOWLING PARTIES
YOUR HOST CAESAR "RED" DONOFRIO
Call . . . 385-4985
EAST ROCHESTER VILLAGE MALL
PACKETT'S LANDING INN
RESTAURANT AND PARTY HOUSE
TREAT YOUR GUESTS TO CANALSIDE ATMOSPHERE

SECTION VII

SUMMARY, CONCLUSIONS AND NEEDED INDUSTRY RESPONSES

Perishables departments have become increasingly pivotal in merchandising programs and overall positioning strategies of the majority of U.S. food retailers. Consumer interest in fresh, healthful foods is up. Moreover, retailers are eager to create distinctive perishables departments to differentiate themselves from ever more intense competition. Yet despite these new pressures, little is known about many of these perishables departments -- the economics, problems, opportunities -- relative to other, better researched parts of the supermarket. This assessment is particularly true of the delicatessen due both to its recent arrival in most supermarkets coupled with the highly perishable and increasingly non-traditional nature of many of its products. This study was undertaken as an initial inquiry to document the distribution practices and the economic conditions that characterize the contemporary supermarket deli.

The objectives of the study (elaborated in Section I) were the following:

(1) to construct a profile of deli shoppers' perceptions and purchasing behaviors and compare it with perceptions of deli executives;

(2) to document the structure, organization and key operating practices of the typical supermarket retail/wholesale deli department;

(3) to compile and analyze data on the key cost components of the supermarket deli;

(4) to identify the challenges and opportunities facing the contemporary supermarket deli industry and suggest needed industry responses.

A twofold methodology was developed to accomplish these objectives: initially an extensive search of industry, deli trade association, and academic literature was performed to identify past research and current industry data and, second, extensive personal interviewing was conducted with headquarters deli executives, store level deli managers and staff and, finally, deli shoppers. In total, approximately 100 food chain and deli executives were interviewed representing 31 major retail organizations. In 1985 these retail firms accounted for nearly 9,100 stores and approximately $90 billion in sales, or 45 percent of all supermarket sales. Finally, personal interviews were conducted with approximately 500 shoppers. In general, both

the executives and consumers interviewed were evenly distributed across geographic markets and supermarket companies in the U.S.

Industry Growth

All secondary data and information compiled during this study demonstrate growth in real terms for the supermarket delicatessen department. Section II presents statistics that show increases since the early 1980s in the number of supermarket delis, deli sales, deli sales as a percentage of overall store sales, the space devoted to the deli and the number of deli products typically carried. In addition to these physical measures, retailers have also responded to new consumer demands for convenient yet high quality foods with increased merchandising emphasis on perishables departments, especially the deli. Increasingly retailers are positioning an important part of their company image on the deli, making it more prominent in the overall strategic marketing plan. The deli now is much more likely to be located first in the customer traffic pattern than a few years ago and generally it benefits from considerable high visibility sampling, demonstration and other merchandising activities more regularly than any other department in the supermarket.

Moreover, this industry growth is not limited to retailers. Although precise structural information on the number and types of deli suppliers is lacking, virtually all the retail deli executives and deli trade association officials interviewed for this study concurred that the number of firms supplying the deli industry is expanding. These firms, both new entrants as well as established meat, cheese and frozen food companies that may now be diversifying into the deli, apparently view the deli department as a business with strong growth potential in the future. As in most categories where rapid growth occurs, however, the opportunities presented to some represent problems for others. The remainder of this section highlights the positive and negative aspects of this rapid industry expansion and suggests responses required from the deli industry to sustain recent growth rates.

Deli Consumers

Contemporary consumers are splintering into increasingly fragmented segments. Substantial research documents that these segments exhibit different food purchasing and behavior patterns (see Section III). Deli shoppers, too, appear to possess certain common characteristics. From interviews with nearly 500 shoppers this study found that deli shoppers were generally younger members of larger households and had considerably higher incomes than non-deli shoppers.

When deli executives' impressions of these shoppers' perceptions and deli buying behaviors were analyzed, a considerable number of misconceptions emerged. For example, whereas executives felt their consumers attached substantial importance to brand names in the deli, consumers themselves attributed almost no importance to deli brands. Moreover, a majority of deli executives felt that their hot foods department would receive a satisfactory or excellent ratings from the shoppers, when, in fact, over two-thirds of all shoppers reported that their perception of hot foods is so poor that they don't even purchase deli hot foods. Despite improved information on deli shoppers now available from this study, the surface has barely been scratched. Consumer responses varied by region and, more importantly, only about one of every five supermarket customers actually makes regular purchases from the deli. Thus a dramatic need exists to develop information regarding the various attitudes and behaviors of deli consumers in different regions of the U.S., especially regarding the 80 percent of all shoppers who do not regularly make delicatessen purchases. Why such a large portion of all supermarket shoppers have not been converted to regular deli consumers is an unexplored, yet researchable, issue.

Consumers in this study indicated concerns about the nutritional value and healthfulness of many deli foods. Although some deli foods, certain salads and cheeses, for example, appear to offer relatively solid nutritional value in the minds of many consumers, other deli foods are viewed as relatively high in calories, cholesterol, nitrites and sodium. Substantial recent consumer research regarding meats, for example, indicates that about one-third of all consumers' purchasing behavior is negatively impacted by health-related concerns (Pierson and Allen, 1984). These are serious problems confronting the deli industry that are not likely to go away. Although many suppliers are already offering low-salt and low-fat products, more will be required. Innovative new products tailored to meet the new demands of contemporary shoppers for convenient, yet healthful foods are needed. Improved nutritional value of deli products must continue and these improvements must be communicated to consumers. Positive nutrition information and educational programs targeted to appropriate consumer segments will become an indispensable component of successful deli marketing plans in the future. In the absence of improved products and well documented and detailed information, medical and nutritional advisors, as well as popular media, are likely to recommend continued reductions in the consumption of many high fat, calorie-rich and sodium-laden deli foods.

Procurement Systems

The combination of the relatively recent arrival of the delicatessen in supermarkets, the fragmentation of suppliers, and

the highly perishable nature of many deli products provides the rationale for the unique distribution and procurement systems that exist for the supermarket deli. Along with the bakery, a component of the deli in many retail organizations, the deli is the only department in the supermarket actually responsible for preparation of processed foods. This presents a number of unique challenges to both deli product marketers and retailers. As elaborated in Section V, some retailers cope with this situation with extensive backroom preparation staff, others arrange for bulk food preparation in central kitchens or commissaries often at the headquarters warehouse, and still others relegate preparation responsibilities to outside vendors or distributors. The choice between these distribution systems, or combinations thereof, often involves implicit economic and merchandising tradeoffs with respect to product freshness, consistency, potential scale economies with large batch processing, and the generally higher real expenses and transaction costs associated with outside suppliers. For the above reasons, retail deli departments rely more heavily on the use of outside distributors than any other area in the supermarket.

Whereas many retailers apparently achieve certain efficiencies by extensive use of distributors, it appears probable that there are considerable, if not always, highly visible costs involved. Vertical coordination between supplier and retailer may, for example, be impeded when this additional distributor level is introduced into the deli marketing system. The apparent savings in retailer warehousing and delivery costs that are effectively shifted to the distributor may in fact be outweighed by the resulting combination of higher distributor product (and service) cost plus inevitable transactions costs associated with additional system participants. Less effective supplier-retailer communication, for example, may be included in this latter category. Although largely tentative, evidence from this study suggests that deli advertising may be less than optimally coordinated between initiating supplier and retailer when a distributor is involved.

One important dimension of these shifting functions and their associated costs is the result on overall systemwide performance. In nearly all cases it is not a question of whether these functions must be performed in order to bridge the gap between supplier and consumer -- they must be -- but rather who is to perform them. And where. Since many of the functions in the contemporary deli system are "shiftable" (see Table 5.4) the real issue of who should perform them is largely one of relative efficiency. To the extent that specialist deli distributors and other intermediaries achieve economies through the scale of their operation and knowhow, retailers can gain by continuing to transfer appropriate deli functions backward in the system. Furthermore, when such systemwide efficiencies are accomplished, all system members, including consumers, benefit through elimina-

tion of unneeded costs. Although it was frequently suggested as a powerful trend, the precise economic impacts of these cost shifts in today's deli channels were not documented in this study. They are, however, researchable issues that provide the basis for logical follow-up study.

Role of Advertising

Empirical data and industry executives interviewed for this study suggest that as the deli grows in both economic and merchandising (eg, "image-making") importance for a majority of supermarkets, the role played by advertising is changing. Where low prices prominently appear in grocery product ads to lure customers, quality and variety are more often featured in the deli. This strategy appears appropriate given the findings of this study that price is not as important as quality in most consumers' deli purchase decisions. The large majority of deli executives interviewed reported that deli products are currently being allocated increased and more prominent space in stores' total advertising and promotional programs (newspapers, point-of-purchase, space in store, store front window, etc.). However, selection of featured products in newspaper ads is still determined primarily by tradition and instincts; deli advertising rules of thumb are crude relative to practices in other parts of the supermarket. Research is required to measure the relationships between various advertising/promotional variables and sales responses in the delicatessen.

Although retailers reported that brand names were somewhat important in consumer deli purchases, consumers felt strongly the opposite (Table 6.2). Specifically, most consumers stated that brand names held little or no importance. The issues here are multifaceted. In the past, for example, some retailer resistance to manufacturer brands has existed. Certain retailers appeared to feel that the very differentiation they sought to create through distinctive delis might be compromised if all competitors' delis had equal access to the same lines of branded supplier products. This philosophy persists with some retailers today and, as a result, many suppliers continue to concentrate marketing efforts on developing retailer rather than strictly consumer loyalty. Such an approach is, in fact, commonplace in marketing products to supermarkets' perishables departments, an approach analogous in many cases to a private label relationship.

However, increasing numbers of food manufacturers are now attempting to develop consumer franchises for branded delicatessen products. While recognizing many retailers' continued reluctance to embrace branded deli products, several of these manufacturers have explained that the very product quality, consistency, and promotion criteria increasingly sought by retail deli operators are, in fact, the hallmarks of a brand. Some have

suggested that while it is implausible that the deli will be overtaken by manufacturer brands, it is likely that several unique, well-supported manufacturer brands may succeed with both retailers and consumers. Such attempts might parallel experiences with branded poultry and, more recently, notable examples in the emerging branded fresh meats and produce areas. In several cases, these new deli brands are accompanied by extensive promotional budgets, electronic media advertising and coupons. It is at least possible that these new initiatives toward branding deli products could result in a more cost effective means of providing consumers with quality assurance than current retailer backing.

Merchandising Complexity

Merchandising is becoming more complex in the contemporary deli. The many deli products merge and compete with an increasingly larger number of food and non-food items in today's substantially larger supermarket. Which products consumers ultimately purchase is influenced importantly by the many merchandising decisions of deli buyers and merchandisers: the product form, mix of products, shelf position, space allocation, promotional and advertising activity and, of course, pricing strategies. Although deli consumers have only limited awareness of how merchandising activities affect their purchases, the cumulative effect of these merchandising decisions often can make dramatic differences in the sales of individual deli products as well as the outcomes of food retailer and manufacturer interactions (Hamm and Handy, 1985).

While meats and cheeses still dominate total deli sales (Table 2.7), numbers of new deli products have grown rapidly, especially in the non-traditional salads, imported and gourmet categories. Some delis now carry well over 1,000 different products. Services, too, have expanded. Many delis today offer pizza and chicken-to-go, catering, party platters, and home delivery. Express check-outs, sit-down eating areas and drive-up windows are becoming popular. These proliferating products and services present the deli buyers and merchandisers with considerable challenges. The rapid growth of these new products and services has intensified the pressures already placed on deli executives by the increased emphasis that senior management has accorded the image-making potential of the deli. Many deli executives in this study reported that merchandising creativity has not kept pace with physical department expansion.

However, an important contradiction exists in the perception of deli image. As noted, many top level food retail executives consider the deli as the new, generally high-quality, and perhaps upscale, image-maker for many of their stores. Some consumers agree. Responses from a substantial number of other consumers,

however, indicate that image problems persist for the deli. Many shoppers complain that it is too high priced and that product quality is inconsistent. In several product categories -- hot foods in particular -- perceptions are clearly negative (see Table 3.11). The majority of deli consumers interviewed, for example, did not buy hot foods due to bad quality image. The same was true of salads to a lesser degree.

These findings suggest that in order to establish the desired image, the deli industry, suppliers and retailers, must first maintain strict product quality and service levels, and only subsequently communicate the desired department image to shoppers. However, such communication and merchandising opportunities are numerous: retail packaging, in-store display materials, manufacturers' advertising -- including coupon activities, until now relatively unexplored in the deli -- and electronic and print media. Experimentation with these and other deli merchandising efforts will be required as the deli matures.

Labor Issues

As service oriented departments become more prominent in supermarkets, labor costs increase. The largest single operating expense for deli operators is labor. At 22.4 percent of all sales (Section IV), labor accounts for a larger percent of deli sales than it does for any other supermarket department. Executives in this study were virtually unanimous in identifying labor issues as their largest single category of concern. The deli often has more employees than any other department yet generally with only one or two full-time managers. Several senior level executives stated that the deli manager had the "most difficult job in the store." The part-time/full-time labor ratio, 2.85, is considered the highest in the store. Moreover, due to the large number of part-time employees, relatively low wages, and substantial requirements for hard work, labor turnover is high.

The confluence of the above factors creates a fundamental dilemma for the contemporary deli: at a time when senior supermarket management is increasingly positioning company image around the high quality, consistent image of the deli, store-level deli employees have less supervision relative to most other departments, lower wages, higher turnover rates and, generally, less training.

This latter issue, training, is especially critical in light of the expanding number of new deli products and services, the greater sophistication of equipment, and the increasing complexity of merchandising. Gradually, the industry is responding to the training requirement at a number of levels: many individual retail firms, deli suppliers and trade associations offer regular forums for training in deli operations. Cornell University has recently developed a series of Home Study Courses focusing on

recently developed a series of Home Study Courses focusing on retail training in the services departments, including a separate book devoted to store-level deli operations (McLaughlin, Uttal, Brohel, 1986). However, after completion of initial training efforts, if the deli industry hopes to maintain top employees for the long run, career opportunities must be created which are at the same time more professionally fulfilling and financially rewarding than the often stagnant structures that exist in many organizations.

Technological Improvements

As labor requirements, and their attendant costs, continue to grow in the deli, technological advances have assisted in improving productivity and thus moderating increases in total costs. Great strides, for example, have been evidenced in preparation, refrigeration and display equipment: in general, such equipment now performs additional functions, is cleaner, more efficient, requires less maintenance and is more appealing for merchandising applications.

In certain other technological areas, however, progress has lagged other food departments. Packaging serves as an appropriate example. Today's deli foam trays, film overwrap and plastic sacs, while the best packaging available for certain deli foods, is often not adequate for product presentation or protection. It can often be inconvenient and generally imparts little product information. It often conveys a low quality/low cost image. Furthermore much of deli packaging is easily damaged, drips sauces and juices and is inadequate for freezing. As new deli product categories mature -- the "ready-to-reheat" or "oven-ready" products, for example -- proper packaging, probably microwavable, must be developed to prepare and protect the new, and often costly, products in an attractive and cost effective way.

Universal Product Code (UPC) scanning and related electronic technologies are major areas where the deli has lagged far behind other supermarket departments. Due to supplier fragmentation, product perishability, the random weights of many deli products, and in-house preparation, few retailers have applied scanning systems to deli foods. Yet the potential benefits for improved speed, accuracy, inventory control, ordering efficiency, merchandising and pricing applications are enormous. Although UPC codes are just now in the development process for deli foods, adoption of electronic technology in the deli has not kept pace with the rest of the supermarket. Speeding implementation of scanning and other systems in the deli is likely to bring about long overdue improvements in productivity, cost control and product mix decisions.

Information on the deli is very limited in a number of ways. Industry-wide structural data are extremely sketchy. Product availability and distribution channel economics are poorly understood. Product knowledge of store level deli staffs is weak. Little is known, and even less effectively communicated to shoppers, about deli foods' nutritional content, the proper preparation, storage and cooking techniques or recipe and meal ideas.

This study demonstrated that with only a few exceptions, retailers lack precise information on their deli operations. Retailers often reported that deli profitability, productivity and shrinkage measures were only "approximate." Costs of product deterioration, of "mark-downs" and of "pulls and rewraps" were generally not known. Direct product profitability (DPP), nearly a reality in some grocery categories, is yet even in the experimental stage in the deli. Retailers have not developed well-specified relationships between advertising and merchandising techniques and resulting sales responses. Lack of such information prevents both retailers and suppliers from determining the full extent of their existing problems and similarly from assessing the potential benefits of initiatives to improve. This initial study established several valuable benchmarks, but much more is needed.

Marketing Orientation

Despite many impressive positive trends and statistics, this study has pointed to a number of obstacles to further deli industry growth. First, the deli is made up of a unique combination of commodity-like items (for example, many meats and cheeses) and value-added items (for example, gourmet salads, imported specialties and take-home dinner entrees). It is primarily the value-added items that generate the greatest relative merchandising attention, receive larger relative shares of shelf space and generally play greater roles in establishing the new image for the contemporary deli. These items are generally welcomed by retailers as they typically carry high gross margins, and occasionally well supported brand identities. Although this study revealed that misconceptions still linger with many consumers about the real quality of some of these foods, nevertheless suppliers and retailers of these products appear to be responding aggressively to changing consumer demand. Listening to consumers and creatively responding is the essence of a marketing orientation.

The irony is this: meats and cheeses still represent 62 percent of all deli sales yet they continue to behave like commodity-type items. With only recent exceptions, the deli industry has not applied value-adding criteria to these dominant

industry has not applied value-adding criteria to these dominant categories. Retailers and suppliers have embraced the "commodity approach" to these products. They appear to be condi ioned to volume and price considerations, often overlooking ma.. .tplace needs and profit opportunities associated with products more closely matching changing consumers' wants and needs. Such a commodity orientation is appropriate for some products and some consumers. However, as discussed, there are growing segments of consumers whose changing needs may best be met by new deli meats and cheeses and improved merchandising resulting from a marketing orientation.

If current deli growth is to be sustained, deli operators need to squarely address the reality that consumers' changing wants and needs must serve as the basis for designing products and services with convenience, quality, taste and nutrition. Three major conditions must be met in order for progress in this area to be realized. First, suppliers must be more vigilant in identifying and monitoring changes in consumers and markets with a continuing research commitment. They must recognize, too, that new product development requires substantial infusions of personnel and financial resources. Second, new product development initiatives by packers and processors must not be stifled by a commodity-oriented retail mentality. The commodity orientation has been a long standing obstacle to value-added marketing. Third, consumers must perceive a true value in deli foods. As the dominant trend to upgrade the quality of foods has spread throughout the food system, many shoppers report that they are now better equipped to make value assessments regarding various foods. If the deli industry can succeed in adding perceived value to deli foods and communicating this value to consumers, the entire system can benefit, even at higher prices.

Systemwide Understanding

This study illustrates the great complexity of the delicatessen industry. Producers of basic commodities are dispersed, manufacturers and distributors are fractionated and retailers are expanding deli departments at unprecedented rates. Moreover, consumers are demanding greater convenience in their food purchasing and preparation yet without sacrificing nutrition and good taste. These conditions point to the need for a better understanding of this vast and rapidly changing system by all participants, suppliers of retailers and retailers of suppliers. Futhermore, a greater recognition of the changing needs and wants of consumers is paramount for successful suppliers and retailers alike. Increased knowledge leads to the identification of potential problems of others and formulation of and responses to the subsequent opportunities. In today's dynamic deli industry such understanding is required to ensure continued improvements in systemwide performance.

APPENDICES

APPENDIX A

Deli Questionnaires

CORNELL UNIVERSITY
FOOD STORE DELICATESSEN STUDY
EXECUTIVE QUESTIONNAIRE

Confidential

All firm information will be held strictly confidential. Only data summarized across the entire industry will be presented in forthcoming reports.

Name and Title_____

Firm Name_____

Address_____ City_____

State_____ Zip_____ Telephone ( )_____

1. What is the primary reason customers shop at your store? (circle one)

convenience quality cleanliness low price service other

2. What is the average size (sq. ft.) of your company's:

stores _____ delis _____

How has the size of the deli been changing relative to store size in recent years?

increasing decreasing no change

3. What is the average number of employees in your average deli?

full time _____ part time _____

4. How many items are carried in your average deli? _____

5. Shrinkage and loss constitute what percent of deli sales? _____%

6. What is the labor/sales percentage in your average deli? _____%

7. What characteristics of the deli are most important to your customers? (Please rank the following four items from 1 to 4, with 1 being the most important, and 4 being the least important).

_____Price _____Cleanliness _____Other_____
_____Quality _____Variety (Please specify)

8. How much importance do your customers place on knowing the specific brand name of deli products?

great little none

9. How much more would your deli customers be willing to pay for deli meats higher in quality than the ones they now purchase?

$_____/lb.

10. How would your deli customers rate the overall quality of the following deli products?

	Excellent	Satisfactory	Poor
Sliced meats & cheeses	_____	_____	____
Prepared salads	_____	_____	____
Hot foods & soups	_____	_____	____

11. From the following list of possible additions to the deli department, in which three would your customers be most interested? (Please rank from 1 to 3)

_____greater selection/hot food items
_____greater selection/low sodium products
_____more advice/suggestions from sales people
_____more nutritional information
_____more advertising of what is available
_____more in-store sampling/demos/preparations
_____more catering/party platter services
_____other _____ (please specify)

12. What is the approximate weekly dollar sales of your average deli? $_____
As a percent of store sales? _____%

13. What is the average gross margin in the deli? _____%
What is the average gross margin for each of the following product categories?

Cheeses_____% Hot entrees_____% Desserts_____%
Meats & poultry_____% Salads_____%

14. Each of the following categories contribute approximately what percent of total deli sales?

Cheeses_____% Hot entrees_____% Desserts_____%
Meats & poultry_____% Salads_____% Other_____%

Please return to:
Cornell Deli Study
Food Industry Management Program
205 Warren Hall
Cornell University
Ithaca, NY 14853

IN-STORE CONSUMER SURVEY

1. What is your primary reason for shopping at this store?

   convenience quality cleanliness low price service _____

2. Do you ever shop at the deli in this store? Y N

3. If YES, what characteristics of the deli department are most important to you? (Please rank from 1 to 4, with 1 being the most important, and 4 being the least important).

   _____Price _____Cleanliness
   _____Quality _____Variety

   If NO, why not _____ go to 6 (end)

4. Did you buy any items from the deli department today? Y N

   If YES, go to 5; if NO, go to 6

5. If DELI MEATS/CHEESES were purchased. . . Why didn't you purchase these deli items prepackaged from the meat/dairy case?

   _____

6. Did you purchase any prepackaged cold cuts/cheese items from the meat or dairy departments today? Y N If YES, what? _____

   Why didn't you purchase these same items from the deli?

   _____

7. Is there a price difference between deli and prepackaged meat/cheese items?

   Y N

   If yes, which department is higher priced?

   deli prepack

8. Have you purchased boiled ham at the deli in the last month? Y N

   If YES, how much did you pay per lb? _____
   If NO, how much would you expect to pay for lb? _____

9. Evaluate the importance you place on knowing the specific brand name of a deli product you purchase.

   Great Little None

10. How much would you be willing to pay for deli meats higher in quality than the ones you now purchase? $_____

11. How do you rate the overall quality of the following deli products?

	Excellent	Satisfactory	Poor	NA
sliced meats and cheese				
prepared salads				
hot foods & soups				

12. Which of the following statements best describes your shopping behavior?

_____I shop this store because of its deli.
_____Once I am in the store, I generally shop its deli.
_____Deli important, but not sole criterion
_____Deli is not that important.

13. From the following list of possible additions to the deli department, in which three would you be most interested? (Please rank from 1 to 3)

_____greater selection/hot food items

_____greater selection/low sodium products

_____more advice/suggestions from sales people

_____more nutritional information

_____more advertising of what is available

_____more in-store sampling/demos/preparations

_____more catering/party platter services

_____other_____(please specify)

Please check the appropriate spaces:

NUMBER OF PEOPLE IN HOUSEHOLD IN FOLLOWING AGE GROUPS:

_____Under 6

_____6 - 12 years

_____13 - 17 years

_____18 - 34 years

_____35 - 54 years

_____55 years & over

HOUSEHOLDS' TOTAL INCOME

_____under $10,000

_____$10,000 to $19,999

_____$20,000 to $29,999

_____$30,000 to $39,999

_____over $40,000

SEX

_____Male

_____Female

RACE

_____Caucasian

_____Black

_____Hispanic

_____Other, _____

_____Unknown

APPENDIX B

Participating Firms

A&P
Byerly's
Dierberg's
Farmer Jack's
Gelson's
Gromer's
H.E. Butt
Hughes
Jewel
Kroger
Lucky Stores
Lund's
Minyard's
P&C
Pantry Pride
Publix
Pathmark
Rainbow
Ralph's
Safeway
Schnuck's
Shaw's
Shop Rite
Shopwell
Sloan's
Stop & Shop
Tom Thumb
Treasure Island
Von's
Waldbaum's
Wegman's

APPENDIX C (a)

Regional Definitions: Six Geographic Categories

West Pacific	West Central	South
Alaska	Colorado	Arkansas
Arizona	Illinois	Louisiana
California	Iowa	Oklahoma
Hawaii	Kansas	New Mexico
Idaho	Minnesota	Texas
Nevada	Missouri	
Oregon	Montana	
Utah	Nebraska	
Washington	North Dakota	
	South Dakota	
	Wisconsin	
	Wyoming	

East Central	Northeast	Southeast
Indiana	Connecticut	Alabama
Kentucky	Maine	Delaware
Michigan	Massachusetts	Florida
Ohio	New Hampshire	Georgia
West Virginia	New Jersey	Maryland
	New York	Mississippi
	Pennsylvania	North Carolina
	Rhode Island	South Carolina
	Vermont	Tennessee
		Virginia

APPENDIX C (b)

Regional Definitions: Four Geographical Categories

West	South	North Central	Northeast
Alaska	Alabama	Illinois	Connecticut
Arizona	Arkansas	Indiana	Maine
California	Delaware	Iowa	Massachusetts
Colorado	Florida	Kansas	New Hampshire
Hawaii	Georgia	Michigan	New Jersey
Idaho	Kentucky	Minnesota	New York
Montana	Louisiana	Missouri	Pennsylvania
Nevada	Maryland	Nebraska	Rhode Island
New Mexico	Mississippi	North Dakota	Vermont
Oregon	North Carolina	Ohio	
Utah	Oklahoma	South Dakota	
Washington	South Carolina	Wisconsin	
Wyoming	Tennessee		
	Texas		
	Virginia		
	West Virginia		

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